GOLOMT BANK

International Financial Reporting Standards
Financial Statements and Independent Auditor's Report

31 December 2023

CONTENTS

GOLOMT BANK JSC

Corporate Information

Incorporation decision	Golomt Bank (the “Bank”) was incorporated on 06 March 1995.	
Certificate and License	The Bank holds the State Registration Certificate No. 9007001012 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 7 April 2023. The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia.	
Board of Governors	Ch. Munkhtsetseg	*Chairwoman*
	Urs E. Schwarzenbach	*Member*
	D. Munkhtur	*Member*
	L. Bolormaa	*Member*
	O.Ganjoloo	*Member*
	J. Unenbat	*Member*
	López Abelló	*Independent Member*
	James B. Dwyer	*Independent Member*
	Alexander Picker	*Independent Member*
	Van Zwieten	*Independent Member*
Executive Officers	K. Norihiko	*Chief Executive Officer*
	G. Ganbold	*President*
	A. Odonbaatar	*Deputy Chief Executive Officer*
	M. Sainbileg	*Chief Information Officer*
	S. Munkhtuya	*Director of Financial Management Division*
	M. Narankhuu	*Director of Credit Division*
	T. Otgon	*Director of Risk Management Division*
	B. Sodbolor	*Director of Treasury Management Division*
	Ts. Baigalmaa	*Director of Retail Business Division*
	N. Ochirkhuyag	*Director of Marketing and PR Division*
	G. Uyanga	*Director of Human Resource Management Division*
	B. Sugar-Erdene	*Director of Corporate Banking Division*
	A. Ganchimeg	*Director of SME Banking Division*
	Yo. Purevbat	*Director of Operation Division*
	B. Enkhzaya	*Director of International Banking Division*
	Kh. Purevdorj	*Director of Administration Division*
	O. Battsengel	*Director of Information Technology Division*
	A. Nyamsuren	*Director of Business Process Management Division*
Registered office	Head Office of Golomt bank Sukhbaatar Square 5, P.O.Box 22 Ulaanbaatar 15160, Mongolia	
Auditors	KPMG Audit LLC Blue Sky, Floor 6, Suite 602, Peace Avenue 17, SBD-1, Ulaanbaatar 14240, Mongolia	

Management's responsibility statement

The Golomt Bank JCS (the "Bank")'s management is responsible for the preparation of the financial statements.

The financial statements of the Bank have been prepared to comply with IFRS Accounting Standards. The management is responsible for ensuring that these financial statements present fairly the state of affairs of the Bank as at 31 December 2023 and the financial performance and cash flows for the year then ended on that date.

The management has responsibility for ensuring that the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank and which enable them to ensure that the financial statements comply with the requirements set out in Note 2 to Note 6 thereto.

The management also has a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The management considers that, in preparing the financial statements including explanatory notes, they have used appropriate policies, consistently applied and supported by reasonable and prudent judgment and estimates, and that all applicable accounting standards have been followed.

The financial statements of the Bank for the year ended 31 December 2023 were authorized for issuance by the Bank's management.

CH. MUNKHTSETSEG	K.NORIHIKO	S. MUNKHTUYA
Chairwoman Board of Governors	Chief Executive Officer	Head of Financial Management Division

МОНГОЛ УЛС
ГОЛОМТ БАНК
ХК
GOLOMT BANK

Ulaanbaatar,

Mongolia

Date: 27 March 2024

KPMG Audit LLC
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1st Khoroo, Sukhbaatar District,
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Independent Auditors' Report

To: The Shareholders and Board of Directors of Golomt Bank Joint Stock Company

Opinion

We have audited the financial statements of Golomt Bank JSC ("the Bank"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

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.

Measurement of Expected Credit Loss Allowance for Loans and Advances to Customers

The Bank's expected credit loss allowance on loans and advances to customers is MNT 165,191,588 thousand as of 31 December 2023. This allowance is determined by the Bank based on the Expected Credit Losses ("ECL") framework under IFRS 9 Financial Instruments.

Refer to Note 12 "Loans and Advances to Customers" to the financial statements and the accounting policies in Note 3.3 "Critical accounting estimates and judgments in applying accounting policies" and Note 4.9 "Loans and Advances customers".

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Key Audit Matter, Continued

Area of focus	How our audit addressed the area of focus
We identified the measurement of ECL allowance for the Bank's loans and advances to customers as a key audit matter due to significance of these assets to the Bank's financial statements and the significant judgement and estimation required in the measurement. Applying different judgments and assumptions can lead to significantly different results of the ECL, which may have a material effect on the Bank's financial results. As disclosed in Note 3.3 to the financial statements, significant management judgement and estimation required in the measurement of ECL includes assessing whether the credit risk of an asset has significantly increased, identifying stage classification, using appropriate models and assumptions, determining key inputs including probability of default (PD), loss given default (LGD), and applying forward looking information.	Our audit procedures over ECL included, among others: - We evaluated the reasonableness of collective assessment of ECL method, and the significant assumptions and data used in the estimate, including whether the credit risk of an asset has significantly increased, PD, LGD, exposure at default and forward-looking information. - We evaluated the design and tested operating effectiveness of controls over the accuracy of effective interest rate and repayment data used in the ECL estimate. - We checked the accuracy of application of methods, assumptions and data. - On a sample basis, we tested the estimate of individual assessment of ECL by developing independent expectation with assistances of our own valuation specialists with specialized skills and knowledge and compared the result to the Bank's estimate.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will 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, 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 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and describe actions applicable in the jurisdiction.

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 IFRS Accounting Standards, 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.

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

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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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.

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Auditors' Responsibilities for the Audit of the Financial Statements, Continued

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and 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 those charged with governance, 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 auditors' 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.

The engagement partner on the audit resulting in this independent auditors' report is Pyung-Sik Kong, and the General Director of the audit firm is Soyolmaa Gungaanyambuu.

KPMG AUDIT LLC

KPMG Audit LLC
Ulaanbaatar, Mongolia
27 March 2024

Signed by:	Approved by:
Soyolmaa Gungaanyambuu	Pyung-Sik Kong
General Director	*Partner*

This report is effective as at 27 March 2024, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholders of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

In thousands of Mongolian Tugriks	Note	31 December 2023	31 December 2022
Assets			
Cash and balances with the Bank of Mongolia	7	1,717,584,758	1,142,404,090
Mandatory cash balances with the Bank of Mongolia	8	468,929,955	357,581,959
Reverse sale and repurchase agreement	23	646,835,976	-
Due from other banks	9	1,403,654,333	1,566,963,380
Investments in debt securities	10	1,733,092,620	1,230,251,009
Investments in equity securities	11	24,082,823	22,513,491
Loans and advances to customers	12	4,712,108,705	3,697,633,345
Assets classified as held for sale	19	29,101,738	6,687,575
Investment properties	13	6,586,475	10,276,475
Other assets	14	489,826,692	283,402,128
Deferred income tax assets	31	6,916,322	-
Derivative financial assets	40	202,386,920	436,146,109
Intangible assets	15	18,878,648	20,948,388
Premises and equipment	16	151,082,991	151,367,641
Right of use assets	17	16,775,279	15,192,622
Repossessed collateral	18	-	43,191,321
Total assets		**11,627,844,235**	**8,984,559,533**
Liabilities			
Due to other banks	20	130,991,856	52,394,763
Customer accounts	21	8,036,633,655	5,743,297,867
Other borrowed funds	22	1,410,928,722	1,916,312,092
REPO arrangements	23	711,674,163	211,347,644
Current income tax liability	31	42,008,579	30,961,395
Deferred income tax liability	31	-	20,743,288
Derivative financial liabilities	40	2,890,938	-
Lease liabilities	35	17,390,429	16,290,486
Other liabilities	24	204,235,171	131,306,235
Total liabilities		**10,556,753,513**	**8,122,653,770**
Equity			
Share capital	25	202,164,327	202,164,327
Share premium	25	301,481,120	301,481,120
Retained earnings		460,718,070	283,420,821
Other reserves		106,727,205	74,839,495
Total equity		**1,071,090,722**	**861,905,763**
Total liabilities and equity		**11,627,844,235**	**8,984,559,533**

In thousands of Mongolian Tugriks	Note	2023	2022
Interest income calculated using the effective interest method	26	792,710,179	576,384,931
Other similar income	26	48,022,376	33,524,234
Interest expense	26	(361,580,996)	(222,857,161)
Other similar expense	26	(1,859,443)	(1,481,221)
Net interest income		**477,292,116**	**385,570,783**
Reversal/(charge) of expected credit loss	12	28,074,700	(45,969,488)
Net interest income after expected credit loss		**505,366,816**	**339,601,295**
Fee and commission income	27	102,170,890	84,131,978
Fee and commission expense	27	(60,190,417)	(39,961,185)
Gains less losses from financial assets at fair value through profit or loss		3,439,577	7,326,760
Gains less losses from modification of borrowed fund at amortised cost		-	1,794,198
Losses less gains from disposal of financial assets at fair value through other comprehensive income		(641,141)	(48,339)
Losses less gains from financial derivatives	40	(133,811,366)	34,725,648
Gains less losses from trading in precious metals		9,362,739	7,815,364
Foreign exchange translation losses less gains		(8,254,552)	(10,060,088)
Gains less losses from trading in foreign currencies		62,258,414	58,228,967
Losses less gains from loans at fair value through profit or loss		(805,488)	(6,120,026)
Gains less losses from modification of financial assets measured at amortised cost, that did not lead to derecognition		1,321,865	(1,688,544)
Reversal of expected credit losses of debt securities at amortised cost	10	61,009	4,181
Expected credit losses for debt securities at fair value through other comprehensive income	10	(2,540,274)	(662,324)
Reversal/(losses) of expected credit losses of due from banks		1,407,047	(3,584,406)
Losses on initial recognition of assets at rates below market		(2,206)	(235,786)
Expected credit losses of other assets	14	(1,557,516)	(868,016)
Losses less gains from asset held for sale		(12,248,114)	5,413
Impairment provision charge for and loss from decrease in fair value of repossessed collateral		-	(96,897,798)
Provision charge for guarantees and letters of credit	39	(1,266,673)	(509,336)
Losses less gains on revaluation of investment properties	13	-	(3,372,606)
Dividend received		75,636	32,813
Other operating income	28	2,288,280	1,154,973
Administrative and other operating expenses	29	(200,159,282)	(175,345,911)
Other losses, net	30	(240,148)	(1,669,241)
Profit before tax		**266,035,096**	**193,797,984**
Income tax expense	31	(56,864,051)	(77,295,936)
Profit for the year		**209,171,045**	**116,502,048**
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income:			
- Gains less losses arising during the year	32	53,714,970	(50,471,551)
- Gains less losses reclassified to profit or loss upon disposal	32	641,141	48,339
Income tax recorded directly in other comprehensive income	31	(13,589,028)	12,605,803
Items that will not be reclassified to profit or loss:			
Gains less losses on investments in equity securities at fair value through other comprehensive income	32	-	(558,251)
Income tax recorded directly in other comprehensive income	31	-	139,563
Other comprehensive income/loss		**40,767,083**	**(38,236,097)**
Total comprehensive income for the year		**249,938,128**	**78,265,951**
Basic earnings per share for profit attributable to the owners of the Bank	**34**	**258.66**	**163.80**
Diluted earnings per share for profit attributable to the owners of the Bank	**34**	**258.61**	**163.73**

In thousands of Mongolian Tugriks	Note	Ordinary share capital	Preferred share capital	Treasury preferred shares	Treasury shares	Share premium	Revaluation reserve for securities at FVTOCI	Revaluation reserve for premises	Other reserves	Retained earnings	Total equity
Balance at 1 January 2022		**168,960,148**	**25,778,900**	**(9,390,800)**	**(322,000)**	**169,486,044**	**(636,094)**	**7,245,102**	**55,104,670**	**242,436,053**	**658,662,023**
Profit for the year		-	-	-	-	-	-	-	-	116,502,048	**116,502,048**
Other comprehensive income		-	-	-	-	-	(38,236,097)	-	-	-	**(38,236,097)**
Total comprehensive income for 2022		**-**	**-**	**-**	**-**	**-**	**(38,236,097)**	**-**	**-**	**116,502,048**	**78,265,951**
Share issue		33,526,179	-	-	-	131,788,974	-	-	-	-	**165,315,153**
Acquisition of treasury shares		-	-	(16,388,100)	-	-	-	-	-	(14,271,600)	**(30,659,700)**
Share retirement		(322,000)	(25,778,900)	25,778,900	322,000	206,102	-	-	-	(206,102)	**-**
Transfer of Revaluation reserve on investment in equity securities at FVTOCI to retained earnings upon disposal		-	-	-	-	-	3,065,729	-	-	(3,065,729)	**-**
Dividends declared and paid	33	-	-	-	-	-	-	-	-	(555,404)	**(555,404)**
Transfer of revaluation surplus on premises		-	-	-	-	-	-	(250,440)	-	250,440	**-**
Transfer to regulatory reserve		-	-	-	-	-	-	-	47,699,164	(47,699,164)	**-**
Share-based payments		-	-	-	-	-	-	-	847,461	-	**847,461**
Other		-	-	-	-	-	-	-	-	(9,969,721)	**(9,969,721)**
Balance at 31 December 2022		**202,164,327**	**-**	**-**	**-**	**301,481,120**	**(35,806,462)**	**6,994,662**	**103,651,295**	**283,420,821**	**861,905,763**
Profit for the year		-	-	-	-	-	-	-	-	209,171,045	**209,171,045**
Other comprehensive income		-	-	-	-	-	40,767,083	-	-	-	**40,767,083**
Total comprehensive income for 2023		**-**	**-**	**-**	**-**	**-**	**40,767,083**	**-**	**-**	**209,171,045**	**249,938,128**
Dividends declared and paid	33	-	-	-	-	-	-	-	-	(40,432,865)	**(40,432,865)**
Transfer of revaluation surplus on premises		-	-	-	-	-	-	(328,399)	-	328,399	**-**
Transfer to regulatory reserve		-	-	-	-	-	-	-	(7,690,697)	7,690,697	**-**
Share based payments		-	-	-	-	-	-	-	(847,461)	847,461	**-**
Movement in operational risk		-	-	-	-	-	-	-	(12,816)	12,816	**-**
Other		-	-	-	-	-	-	-		(320,304)	**(320,304)**
Balance at 31 December 2023		**202,164,327**	**-**	**-**	**-**	**301,481,120**	**4,960,621**	**6,666,263**	**95,100,321**	**460,718,070**	**1,071,090,722**

As of 31 December 2023, other reserves mainly consist of the regulatory reserves required by Bank of Mongolia (BOM). In accordance with the regulation of the BOM, it is required to recognize the excess difference of credit loss allowance and provision for repossessed collaterals determined in accordance with the regulations of BOM ("BOM impairment provision") in comparison to credit loss allowance and provision for repossessed collaterals determined under IFRS as a reserve in the statement of changes in equity. This reserve is created as appropriation of the Bank's retained earnings, as such treatment is in accordance with IFRS and the accounting regulations of the Bank of Mongolia and represents regulatory reserve.

In thousands of Mongolian Tugriks	Note	2023	2022
Cash flows from operating activities			
Profit before tax		**266,035,096**	**193,797,984**
Adjustments for non-cash income and expenses:			
(Reversal)/charge of expected credit loss	12	(28,074,700)	45,969,488
Gains less losses from financial assets at fair value through profit or loss		(3,439,577)	(7,326,760)
Gains less losses from modification of borrowed fund at amortised cost		-	(1,794,198)
Losses less gains from financial assets at fair value through other comprehensive income		-	48,339
Losses less gains from financial derivatives	40	230,906,300	(34,725,648)
Gains less losses from modification of financial assets measured at amortised cost, that did not lead to derecognition		(1,321,865)	1,688,544
Losses less gains of loans at fair value through profit or loss		805,488	6,120,026
(Reversal)/charge of expected credit loss of due from other banks		(1,407,047)	3,584,406
Impairment of debt securities at fair value through other comprehensive income		2,540,274	662,324
Reversal of expected credit losses of debt securities at amortised cost		(61,009)	(4,181)
Losses on initial recognition of assets at rates below market		2,206	235,786
Losses less gains on disposal of premises and equipment, assets held for sales and investment properties		240,148	1,669,241
Foreign exchange losses		8,254,552	10,060,088
Expected credit losses for other assets	14	1,557,516	868,016
Expected credit losses for credit related commitment		1,266,673	509,336
Losses less gains from revaluation of investment properties	13	-	3,372,606
Losses less gains from asset held for sale	19	12,248,114	(5,413)
Depreciation expense	16,17	29,020,908	27,077,479
Amortisation expense	15	6,368,834	6,063,280
Property and equipment written off	16	736	66
Impairment provision charge for and loss from decrease in fair value of repossessed collateral	18	-	96,897,798
Interest income	26	(840,732,555)	(609,909,165)
Interest expense	26	363,440,439	224,338,382
Cash flows used in operating activities before changes in operating assets and liabilities		**47,650,531**	**(30,802,176)**
(Increase) / decrease in mandatory cash balances with the Bank of Mongolia		(111,709,640)	(79,911,039)
(Increase) / decrease in reverse sale and repurchase agreement		(645,986,460)	-
Decrease / (increase) in due from other banks		263,696,887	(290,629,936)
Decrease / (increase) in debt securities at fair value through profit or loss		32,063,466	12,343,979
(Increase) / decrease in equity securities at fair value through profit or loss		-	(95,171)
(Increase) / decrease in loans and advances		(1,222,173,621)	(567,177,200)
Decrease / (increase) in other assets		(31,936,918)	(14,297,782)
Decrease / (Increase) in repossessed collateral		-	85,278,199
Decrease / (increase) in assets classified as held for sale		33,618,152	(44,592,847)
Increase / (decrease) in due to banks		78,475,246	31,075,728
Increase / (decrease) in customer account		2,250,056,998	284,574,136
Decrease / (increase) in derivative instruments		129,223,514	-
Increase / (decrease) in other liabilities		71,662,263	60,809,914
Net cash from / (used in) operating activities before tax and interest		**894,640,418**	**(553,424,195)**
Income tax paid		(87,065,505)	(51,720,490)
Interest income received on financial assets at amortised cost		812,291,342	616,840,938
Interest income received on investments at fair value through profit or loss		20,318,547	4,715,191
Interest paid		(323,631,444)	(225,243,451)
Net cash from / (used in) operating activities		**1,316,553,358**	**(208,832,007)**

The notes set out on pages 11 to 136 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	Note	2023	2022
Cash flows from investing activities			
Acquisition of debt securities at fair value through other comprehensive income		(843,094,384)	(112,280,200)
Proceeds from disposal of debt securities at fair value through other comprehensive income		390,779,306	-
Acquisition of equity securities at fair value through other comprehensive income		(36,317)	-
Proceeds from disposal of equity securities at fair value through other comprehensive income		-	138,979
Proceeds from disposal of investment property		3,690,000	7,516,430
Acquisition of premises and equipment	16	(30,553,696)	(21,121,361)
Proceeds from disposal of premises and equipment	16	8,811,797	508,280
Acquisition of intangible assets	15	(4,299,094)	(9,162,996)
Prepayment for non-current assets	14	(176,045,161)	(230,000,000)
Net cash used in investing activities		**(650,747,549)**	**(364,400,868)**
Cash flows from financing activities			
Proceeds from repo arrangements	35	4,097,128,065	424,211,523
Repayment of repo arrangements	35	(3,586,092,454)	(447,033,190)
Proceeds from drawdown of other borrowed funds	35	460,432,436	1,201,130,206
Repayment of other borrowed funds	35	(836,817,398)	(970,908,033)
Payment of principal of lease liabilities	35	(10,247,841)	(5,758,791)
Issue of ordinary shares	25	-	165,315,153
Acquisition of treasury shares		-	(30,659,700)
Dividends paid	33	(40,432,865)	(555,404)
Other disbursement		-	(6,600,000)
Net cash from financing activities		**83,969,943**	**329,141,764**
Effect of exchange rate changes on cash and cash equivalents		(40,552,969)	84,779,711
Net increase/(decrease) in cash and cash equivalent		**709,222,783**	**(159,311,400)**
Cash and cash equivalents at the beginning of the period	7	2,275,414,488	2,434,725,888
Cash and cash equivalents at the end of the period	7	**2,984,637,271**	**2,275,414,488**

Refer to Notes 3 and 10 for information on the MIK-SPC and SFC securitisation transactions that did not require the use of cash and cash equivalents and were excluded from the Statement of Cash Flows.

Noncash transfers from Loans and advances to Assets classified as held for sale were excluded from the Statement of Cash Flows. Refer to Note 4.29, Note 13, Note 18 and Note 19.

The notes set out on pages 11 to 136 form an integral part of these financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB ("IFRS Accounting standards") for year ended 31 December 2023 for Golomt Bank ("the Bank").

As of 31 December 2023, the Bank's immediate parent company is Golomt Financial Group LLC (31 December 2022: Golomt Financial Group LLC). The Bank was incorporated and is domiciled in Mongolia. The Bank is a joint-stock company and was established in accordance with the legislation of Mongolia.

Mr. Bayasgalan.D, the owner of Golomt Financial Group as of 31 December 2023, represents the ultimate controlling party of the Bank as of 31 December 2023 and 31 December 2022.

The Bank's shareholders as of 31 December 2023 and 31 December 2022 are disclosed in Note 25.

The Bank holds the State Registration Certificate No. 9007001012 with registration No.2075377 re-granted by the State Registration Office of Mongolia on 7 April 2023. The Bank holds a full banking license No. 25 dated 6 March 1995 issued by the Bank of Mongolia, Central Bank of Mongolia.

In accordance with the effective Charter of the Bank, the Bank's principal activities include:

- Savings;
- Loan services;
- Card services;
- Guarantees and letters of credit;
- Money transfer;
- Sales, purchase, deposit and trading of foreign currencies;
- Sales, purchase, deposit and trading of precious metals;
- Foreign settlement;
- Issuance and trading of securities;
- Financial leasing service;
- Purchase and sales of loans and other financial instruments;
- Custodian banking;
- Other financial services not restricted under the legislation and other activities accepted by the Bank of Mongolia and other government institutions.

The Bank obtained the Special License for underwriting services, custodian banking and insurance intermediary services from the Financial Regulatory Commission of Mongolia ("FRC") on 2 June 2011, 27 August 2014 and 21 October 2014 respectively in accordance with the resolution No.163, No.295 and No.358 of FRC.

At 31 December 2023, the Bank had 75 branches within Mongolia (31 December 2022: 77 branches). Also, as at 31 December 2023 the Bank had 23 sub-branches (31 December 2022: 25 sub-branches).

The number of Bank employees as at 31 December 2023 was 2,474 (31 December 2022: 2,266).

The Bank's registered office and principal place of business is Sukhbaatar Square 5, P.O.Box 22, Ulaanbaatar 15160, Mongolia.

These financial statements are presented in Mongolian Tugriks ("MNT").

A glossary of various abbreviations used in this document is included in Note 46.

2 Operating Environment of the Bank

2.1 General

Mongolia displays many characteristics of the emerging market including relatively high inflation and interest rates. Since China opened their border ports, exports have grown rapidly, and coal exports reached a record high of 66.7 million tons, Mongolia’s main economic growth source. However, the decline of the real estate industry in China, Mongolia’s biggest exporter, is expected to slow down their economic growth, which could negatively affect the demand and commodity prices.

The Bank of Mongolia has maintained the policy rate at a high level of 13% throughout 2023. With high policy rates, financial expenses could negatively affect the business sector. Overall Mongolian real GDP grew by 7.0%, while the nominal GPD reached 68.7 trillion MNT.

On 26 June 2023 Standard & Poor’s credit rating reaffirmed Mongolia’s credit rating at “B” with a stable outlook. Moody’s credit rating for Mongolia stayed B3 stable outlook. Fitch’s credit rating for Mongolia was last reported at B with stable outlook.

National inflation reached 7.9% at the end of 2023, which fell below the central bank's target of 6% (+-2%). This decrease from high of 16.9% in Q2 of 2022 to current 7.9% by the end of 2023 was mainly due to the tight monetary policy implemented throughout.

By analysing economic growth by sector, the mining sector has grown by 23.4% in 2023 due to the improvement in the export of coal, copper concentrate, and oil production. This also enhanced the growth of the transport sector. For example, Mongolia transported a total of 107.4 million tons of cargo in 2023, an increase of 76.6% from the previous year, and 87.6% of the total transported cargo was made up of natural resources. Additionally, in 2023, the growth of the information and communication sector reached 16.7% due to the expansion of telecommunication companies.

The long-term effects of the current and future economic situation are difficult to assess and management’s current expectations and estimates could differ from the actual results.

For the purpose of measurement of expected credit losses (“ECL”) the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Notes 4 and 38 provide more information of how the Bank incorporated forward-looking information in the ECL models.

According to the new banking law, Mongolia's top five banks have successfully completed their IPOs.

2 Operating Environment of the Bank (continued)

2.2 Currency transactions

Foreign currencies, particularly, US Dollar and EUR, play an important role in the underlying economics of many business transactions in Mongolia. The table below shows exchange rate of MNT relative to USD and EUR as set by the Central Bank of Mongolia.

Date	USD	EUR
31 December 2023	3,410.69	3,791.66
31 December 2022	3,444.60	3,669.02
31 December 2021	2,848.80	3,222.99
31 December 2020	2,849.51	3,495.78
31 December 2019	2,733.52	3,061.00

3 Basis of Presentation

3.1 General principles

These financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ("IFRS Accounting standards") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, financial instruments categorised at fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI"). The principal accounting policies applied in the preparation of these financial statements are set out in Note 4. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

The Bank maintains its accounting records in accordance with the applicable legislation of Mongolia. The Bank's financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS Accounting standards.

3.2 Functional and presentation currency

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional currency of the Bank, and the Bank's presentation currency, is the national currency of Mongolia, Mongolian Tugriks ("MNT"). All values in these financial statements are rounded to the nearest thousands, except otherwise indicated.

3.3 Critical accounting estimates and judgments in applying accounting policies

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

3.3.1 ECL measurement

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 38. The following components have a major impact on credit loss allowance:

- segmentation of financial assets for the ECL assessment purposes;
- determination of a level of ECL assessment on an individual instrument basis or on a collective basis;
- definition of default applied by the Bank;

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

- development and application of internal credit grading models, which assigns PDs to the individual credit risk grades;
- development and application of internal models used to estimate exposure at default (“EAD”) for financial instruments and credit-related commitments;
- assessment of loss given default (“LGD”), including the judgments made in valuation of collaterals;
- criteria for assessing if there has been a significant increase in credit risk;
- selection of forward-looking macroeconomic scenarios and their probability weightings.

3.3.2 Credit exposure on revolving credit facilities (e.g., credit cards, overdrafts).

For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses. For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both retail and commercial, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting-point and the expected end-point of the exposures. The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (e.g. the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

3.3.3 Significant increase in credit risk (“SICR”).

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. In order to determine the SICR, the management considers certain criteria based on its judgment. Refer to Note 38. SICR criteria are:

- 30 days past due for all type of loans;
- Forbearance status;
- Loans classified with “Special mention” based on “Regulation on asset classification, provisioning and its disbursements” by the Bank of Mongolia.
- Default status.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by MNT 4,622,295 thousand as of 31 December 2023 (31 December 2022: higher by MNT 4,488,994 thousand).

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.3.4 Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimizing potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank’s control, is not recurring and could not have been anticipated by the Bank’s are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The “hold to collect and sell” business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model’s objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

The Bank identified approximately 82% (31 December 2022: 82%) of debt securities as a liquidity portfolio and classified as held to collect and sell, while the rest of the debt securities is classified as held to collect on maturity based on the assumption that these securities would only be sold in a stress case scenario.

The Bank concludes that all types of loans, except for mortgage loan portfolio to be sold to Mongolian Mortgage Corporation LLC (“MIK HFC LLC”) with non-recourse and SME loan portfolio to be sold to SFC, meet the criteria for hold to collect business model.

3.3.5 Assessment whether cash flows are solely payments of principal and interest (“SPPI”)

Determining whether a financial asset’s cash flows are solely payments of principal and interest required judgement.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset’s principal is the fair value at initial recognition less subsequent principal repayments, i.e., installments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual paramount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The instruments that failed the SPPI test are measured at FVTPL and it is related to financial instruments under Mortgage lending program and non-mining export sector and SME lending program.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

The Bank's loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Bank or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Bank. The cash flows are SPPI if such clauses merely reduce the Bank's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail-in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

3.3.6 Modification of financial assets

When financial assets are contractually modified (e.g., renegotiated), the Bank assesses whether the modification is substantial and should result in de-recognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The de-recognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management analyses the modification at each circumstance with consideration of changes in the contract. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

3.3.7 Write-off policy

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: loans being minimum of 180 days past due after court decision, liquidation or bankruptcy proceedings, and fair value of collateral is less than the costs to repossess it or enforcement activities were completed.

3.3.8 Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 44.

3.3.9 Valuation of premises and investment properties

Investment property and premises are initially recognised at cost, including transaction costs, and subsequently re-measured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property and premises are the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs.

Fair value of the Bank's investment property and premises are determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Earned rental income from investment property is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

Increases in the carrying amount premises arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year.

Information of assumptions and valuation technique used in determining fair value are disclosed in Note 41.

3.3.10 Determining lease term

The Bank leases office buildings from third parties under contracts, which do not have contractual maturity dates and are automatically renewed unless either party submits a termination notice of 5-30 days. The Bank determines non-cancellable lease period for such leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating, or the importance of the premises to the Bank's operations. As a result, the lease term for most significant office buildings has been determined as a period of 1-10 years.

3.3.11 Borrowings from government organizations, central bank, and international financial institutions

The Bank obtains long-term financing from Mongolian government organizations, including state-owned Development Bank of Mongolia, the Bank of Mongolia, and international financial institutions at interest rates at which they ordinarily lend and which may be lower than rates at which the Bank could source the funds from other lenders. As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgment is that these funds and the related lending are at market rates and no initial recognition gains or losses should arise.

In making this judgment, management also considers that these instruments represent a principal market. This management's judgment is also applicable to the received funds from the Bank of Mongolia for a mortgage loan program implemented by the Government at an interest rate of 1%, 2%, and 4% p.a., which are used for financing of mortgage loans at advantageous rates of 5%, 6%, and 8% p.a. defined by the Bank of Mongolia.

The borrowings from international financial institutions or government organizations and the Bank of Mongolia meeting the above criteria amounted to MNT 358,752,083 thousand as at 31 December 2023 (31 December 2022: MNT 491,914,382 thousand) and are disclosed in Note 22.

3.3.12 Mongolian Mortgage Corporation LLC (MIK) securitisation transaction

During 2023, the Bank participated in 3 tranches of MIK securitisation transaction. The Bank sold the 6% mortgage loans to MIK SPC32, MIK SPC33, MIK SPC34 special purpose companies wholly owned by the MIK HFC LLC for which it received residential mortgage-backed securities (RMBS) Senior RMBS notes bearing interest at 1.0%, 2.25% and Junior RMBS notes bearing interest at 9.0%, 11.0%. The loans have been purchased by above mentioned MIK-SPCs on a non-recourse basis. The principal of the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. The Bank has been appointed as the Servicer of the respective loans sold and receives a service fee of 2.5% on amount collected for performing this service. Residual net assets in MIK-SPCs, if any, belong to the shareholder of MIK-SPC i.e., MIK HFC LLC.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

On the other hand, any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior-RMBS holders (proportionally in accordance with their seniority in the right of payment and priority) with no recourse to MIK. As part of this agreement the Senior RMBS notes obtained by the Bank were used to repay the 1% and 2% funding received from the Bank of Mongolia for financing the original 6% mortgage lending.

Management considered whether these loans have met the de-recognition criteria set out in IFRS. Management's judgment is that although the Bank receives cash from the loan portfolio as an agent, the Bank has transferred its right to receive the cash flows from these 5%, 6%, and 8% Mortgage Assets and that substantially all the risks and rewards have been transferred.

As part of certain securitisation transactions that result in the Bank derecognising the transferred financial assets in their entirety, the Bank retains servicing rights in respect of the transferred financial assets. Under the servicing arrangements, the Bank collects the cash flows on the transferred mortgages on behalf of the unconsolidated securitisation vehicle. In return, the Bank receives a fee that is expected to compensate the Bank adequately for servicing the related assets. Consequently, the Bank accounts for the servicing arrangements as executory contracts and has not recognised a servicing asset/liability. The servicing fees are based on a fixed percentage of the cash flows that the Bank collects as an agent on the transferred residential mortgages. Potentially, a loss from servicing activities may occur if the costs that the Bank incurs in performing the servicing activity exceed the fees receivable or if the Bank fails to comply with the terms outlined in the servicing agreements.

In making this judgment, management has considered that the risk profile of the collective or commingled pool of loans from different banks is materially different from the risk profile of the loans it sold due to different borrowers, obligors and locations of mortgaged assets. Management has also considered whether gains or losses should arise on initial recognition of such instruments.

As the transactions were entered into by willing market participants, management's judgment is that these instruments are at market rates and no initial recognition gains or losses should arise. In making this judgment, management also considers that these instruments represent a principal market.

3.3.13 Asset-backed securities issued by Securities Financing Corporation LLC ("SFC")

During 2023 the Bank participated in 2 tranches of SFC securitization transactions. The Bank sold the 10-10.24% non-mining export sector, manufacturing and small and medium enterprises' loan portfolio to SFC SPC5, SFC SPC6 special purpose companies wholly owned by the SFC LLC for which it received asset-backed securities (ABS) Junior and Senior ABS notes bearing interest at 9.0% and 9.24% respectively.

The loans have been purchased by above mentioned SFC-SPCs on a non-recourse basis. The principal of the Junior ABS will only be redeemed after the full redemption of the principal of the Senior ABS and the payments to Junior ABS holders are subordinate in right of payment and priority to the Senior ABS. The Bank has been appointed as an agent of the respective loans sold and receives a service fee of 0.5% on amount collected for performing this service. On the other hand, any shortfall in the net assets of SFC-SPC would be borne by the Senior and Junior ABS holders (proportionally in accordance with their seniority in the right of payment and priority) with no recourse to SFC.

Management considered whether these loans have met the de-recognition criteria set out in IFRS. Management's judgement is that although the Bank receives cash from the loan portfolio as an agent, the Bank has transferred its right to receive the cash flows from these 10%-10.5% loans and that substantially all the risks and rewards have been transferred.

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

3 Basis of Preparation (continued)

3.3 *Critical accounting estimates and judgments in applying accounting policies (continued)*

3.3.14 Deferred taxation on financial derivatives and foreign exchange translation differences.

Based on the Corporate Income Tax Law realized foreign exchange gains are taxable, realized foreign exchange losses are deductible, while taxation of unrealized foreign exchange gains and losses is deferred until the period in which they become realized. As a result, unrealized gains or losses arising from the changes in fair value of financial derivatives (including long-term swaps) and unrealised foreign exchange differences arising from the related long-term borrowings from international financial organizations are treated as non-taxable income and non-deductible expenses until they become realized (i.e., until the maturity of the borrowings), thus creating a taxable or deductible temporary difference. As a result, net deferred tax liability of MNT 15,918,131 thousand is recognized as of 31 December 2023 (31 December 2022: MNT 50,744,204 thousand), refer to Note 31.

In making above judgment, management considered IFRS principles, nature of transactions, tax legislation governing similar transactions (such as tax treatment of gains and losses arising from foreign currency transactions and translation of financial assets denominated in foreign currency), current practices of tax authorities, including results of previous tax inspections, and practices applied in the banking sector, including practicability of differentiation between realized and unrealized gains and losses.

Certain changes in value of foreign exchange derivatives represent unrealized gains and losses and are therefore treated as temporary differences (Notes 3 and 31), except when related gains and losses were already treated as taxable income and deductible expenses in previous periods. Long-term swaps with the Central Bank are taken to swap USD-denominated long-term borrowings from international financial institutions for local currency.

For more details on income tax, refer to Note 31. For uncertainties related to interpretation of Mongolian tax legislation, refer to Note 31.

3.3.15 Deferred taxation arising on differences between IFRS and the regulations of the Bank of Mongolia

Apart from assessing impairment provision in accordance with IFRS accounting standards requirements, the Bank determines impairment provision for the purposes of reporting to the Bank of Mongolia (central bank) based on classification of loans based on provisioning guidelines in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the Bank of Mongolia and the Ministry of Finance. In accordance with these regulations, the Bank is required to determine the quality of loans and advances based on quantitative and qualitative factors. Quantitative factors include time characteristics, including past due status (i.e., delays in repayment). Loans are classified as follows: Performing, In Arrears, and Non-Performing. Non-performing loans are further classified as Sub-Standard, Doubtful and Loss. Each category requires a specific reserve percentage. According to tax regulation on corporate income tax, any impairment provision charges for the performing loans represent non-deductible expenses for the period. The Bank has determined impairment provision on performing loans as of 31 December 2023, as a part of its assessment of impairment provision in accordance with IFRS requirements and treated related impairment provision charges as a base for deferred tax.

Management has performed detailed review of the accounting and tax treatment of charges and releases of impairment provision on performing loans, as well as of tax impact of difference between Bank of Mongolia and IFRS provision and has concluded that such items represent temporary differences and thus related deferred tax assets of MNT 5,933,100 thousands as of 31 December 2023 (31 December 2022: deferred tax asset of MNT 4,776,735 thousands) has been recognized in these financial statements.

Impairment provision per Bank of Mongolia which is tax deductible expense is higher than IFRS provision as of 31 December 2023 and 31 December 2022.

3 Basis of Preparation (continued)

3.3 Critical accounting estimates and judgments in applying accounting policies (continued)

Similarly, in accordance with the above-mentioned regulations of the Bank of Mongolia, interest income on loans overdue more than 90 days should not be recognized in the Bank’s profit or loss account, which is not in line with IFRS treatment.

As tax authorities follow the regulations of the Bank of Mongolia when assessing taxable income and tax-deductible expenses, related interest income, recognized in these financial statements in accordance with IFRS, is treated as non-taxable income of the current period and represents a temporary difference, as related amounts would be taxed in the future when related interest income is collected and recognized as taxable income in tax returns.

As a result, the Bank has recognized deferred tax liability of MNT 10,222,900 thousands as of 31 December 2023 (31 December 2022: MNT 9,370,561 thousands). Management has assessed the risk that tax authorities may take different position and treat related interest income as taxable income or otherwise challenge the Bank’s tax treatment and impose additional tax obligation. However, based on all available information at the date of issuance of this financial information, including current practices of tax authorities, results of previous tax inspections, and practices applied in the Mongolian banking sector, management believes that such risk is remote. For more details on income tax, refer to Note 31.

3.3.16 Fair value of long-term derivatives

The Bank entered into a long-term cross-currency interest rate SWAP arrangement with the Bank of Mongolia with start dates from 2018 to 2023 These derivatives are measured at fair value through profit and loss. The arrangement is to swap MNT/USD on regular basis based on interest rate formula with maturities ranging from 1 year to 8 years. The Bank developed a valuation model for assessing the fair value of such swap instruments. The model is fully based on observable market data. The Bank considers the fair value of swaps assessed based on the model to be a Level 2 valuation, and hence the Day 1 gain on such a derivative instrument is recognized on the statement of profit and loss.

Management used their best estimate in fair value estimation of long-term cross-currency interest rate swaps at the year's end. Information about assumptions used for valuation of fair value of instruments is disclosed in Note 41.

3.3.17 Initial recognition of other financial instruments below market rate

IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. When determining the amounts of loss/gain on initial recognition in relation to below market rate, management made judgments based on available information that weighted average lending rate of Mongolian commercial banks represents reasonable approximation of market interest rate on MNT funding in case of credit (counterparty).

4 Material Accounting Policies

Material accounting policy information

The Bank adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information and disclosed in the financial statements.

The amendments require the disclosure of “material”, rather than “significant”, accounting policies. The amendments also provide guidance on the application of materiality to disclose of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

The following material accounting policies were adopted in preparation of these financial statements of the Bank. These policies have been consistently applied to all the periods presented unless otherwise stated (refer to Note 5).

4.1 Financial assets

The Bank determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

(i) Key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

4 Material Accounting Policies (continued)

4.1 Financial assets (continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a Bank of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the Bank of financial assets and financial liabilities on the basis of the entity's net exposure to particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the Bank of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Management takes the view that valuation technique reaches more accurate presentation of fair value of the derivative financial instruments. Main inputs in the valuation technique are the estimation of the MNT discount rate based on risk-free rate, country risk premium and currency risk premium, US discount rate based on treasury yield, US leg based on US SOFR, constant and Z spread, MNT leg based on policy rate, or as provided in the corresponding swap agreement.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 41.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

4 Material Accounting Policies (continued)

4.1 Financial assets (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e., it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

(ii) Initial recognition of financial instrument

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVTOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Bank uses discounted cash flow valuation techniques to determine the fair value of long-term cross currency interest rate swaps and foreign exchange swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition and the amount determined at subsequent period. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

(iii) Classification and subsequent measurement – measurement categories

The Bank classifies financial assets in the following measurement categories: FVTPL, FVTOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

(iv) Classification and subsequent measurement – business model

The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a Bank of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 3 for critical judgements applied by the Bank in determining the business models for its financial assets.

4 Material Accounting Policies (continued)

4.1 Financial assets (continued)

(v) Classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 3 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

(vi) Reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole change. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

(vii) Credit loss allowance for ECL

The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVTOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date.

The measurement of ECL reflects (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions, and forecasts of future conditions.

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

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 38 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 38 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

4 Material Accounting Policies (continued)

4.1 Financial assets (continued)

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

(viii) Write-off

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a de-recognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due; however, there is no reasonable expectation of recovery. The bank considers that there is no reasonable expectation of recovery in following conditions: The borrower was defaulted, and no recovery is expected even if the Bank wins in court or in a case where the cost for chasing after the borrower is higher than the recoverable amount.

(ix) De-recognition of financial assets

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

(x) Modification

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

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss unless the substance of the difference is attributed to a capital transaction with owners.

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

4 Material Accounting Policies (continued)

4.2 Foreign currency translation

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Bank of Mongolia are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Exchange rates used in the preparation of these financial statements were as follows:

	2023	2022
Mongolian national Tugriks/US Dollar	3,410.69	3,444.60
Mongolian national Tugriks/EURO	3,791.66	3,669.02
Mongolian national Tugriks/British Pound Sterling	4372.16	4,156.60
Mongolian national Tugriks/Chinese Yuan	480.01	495.40
Mongolian national Tugriks/Russian Rubble	37.67	48.85

4.3 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include deposits with the Central Bank (the Bank of Mongolia), other than required mandatory reserve, the Bank of Mongolia and Government treasury bills, and all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

Cash and cash equivalents are carried at AC because (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

4.4 Mandatory cash balances with the Central Bank of Mongolia

Mandatory cash balances with the Central Bank of Mongolia represent mandatory reserve deposits with Central Bank of Mongolia, which are not available to finance the Bank's day-to-day operations. The mandatory reserve balance is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

4.5 Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

4 Material Accounting Policies (continued)

4.6 Investment in debt securities

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

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

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVTOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

4.7 Investments in equity securities

Financial assets that meet the definition of equity from the issuer's perspective, i.e., instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Bank. Investments in equity securities are measured at FVTPL, except where the Bank elects at initial recognition to irrevocably designate an equity investment at FVTOCI. The Bank's policy is to designate equity investments as FVTOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVTOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

4.8 Derivative financial instruments

Derivative financial instruments primarily include foreign exchange contracts such as forward rate agreements, currency swaps, and cross-currency interest rate swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses from financial derivatives). The Bank does not apply hedge accounting.

4.9 Loans and advances to customers

Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVTOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 38 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

4 Material Accounting Policies (continued)

4.10 Assets Classified as Held for Sale

Assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active program to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period. Held for-sale premises and equipment are not depreciated. Reclassified non-current financial instruments are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

4.11 Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set-off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

4.12 Financial liabilities

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g., short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – de-recognition: Financial liabilities are derecognised when they are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch-up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Due to other banks – Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at AC.

Customer accounts - Customer accounts are non-derivative financial liabilities to individuals, state, or corporate customers in respect of settlement accounts and deposits, and are carried at AC.

4 Material Accounting Policies (continued)

4.12 Financial liabilities (continued)

Other borrowed funds - Other borrowed funds include loans obtained from international financial institutions and Mongolian government organizations. These financial liabilities are carried at AC using the effective interest rate method.

Subordinated debts - Subordinated debts are carried at AC using the effective interest rate method.

Other liabilities – Other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

4.13 Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as reverse sale, and repurchase agreements. The difference between the sale and repurchase price is treated as interest income in the statement of profit or loss and other comprehensive income and accrued over the life of reverse repo agreements using the effective interest rate method.

Based on classification of securities sold under the sale and repurchase agreements, the Bank classifies repurchase receivables into one of the following measurement categories: AC, FVTOCI, and FVTPL.

4.14 Premises and equipment

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

Premises owned by the Bank are initially measured at cost. Premises are subject to regular revaluations, with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year.

The revaluation reserve for premises included in equity is transferred directly to accumulated deficit or retained earnings when the surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Revalued amounts of the Bank's premises are determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

The Bank applies revaluation model for premises since 2013. Equipment owned by the Bank is stated at cost less depreciation and provision for impairment, where required. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

4 Material Accounting Policies (continued)

4.14 Premises and equipment (continued)

Leasehold improvements are alterations made to rented properties by the Bank to customise it to its particular business needs and preferences. The improvements that are specialised to the Bank's intended use of the property are treated as own assets for accounting purposes.

According to the IAS 16 "Property, plant and equipment", when the fair value of a revalued asset does not differ materially from its carrying amount, it may be necessary to revalue the item only three to five years. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

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

- Premises – 40 years;
- Motor vehicles – 10 years;
- Furniture – 10 years;
- Office equipment and computer – from 3 to 10 years;
- Leasehold improvements - shorter of useful life and the term of the underlying lease.

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

4.15 Investment property

Investment property includes property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the process of providing services or for administrative purposes. Investment property is initially measured at cost, which is the purchase price plus any directly attributable expenses. Investment properties are subsequently measured at fair value, which reflects market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs.

Gains or losses arising from changes in the fair value of investment properties are recognised in the profit or loss account in the year they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss in the year they arise. Investment property is derecognized upon its sale or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any gain or loss arising on de-recognition of investment property is recognized in the profit or loss account in the year of de-recognition.

Fair value of the Bank's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The Bank applies fair value model for valuation of investment properties since 2013.

4 Material Accounting Policies (continued)

4.16 Intangible assets

The Bank's intangible assets have definite useful life and primarily include capitalised computer software licenses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g., its maintenance, are expensed when incurred.

Intangible assets with finite lives are amortised on straight-line basis over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation periods and methods are reviewed at least at each financial year-end. The estimated useful lives of intangible assets are as follows:

- Software licenses – from 3 to 5 years;
- Land right use – up to 3 years

4.17 Leases

Accounting for leases by the Bank as a lessee. The Bank leases office premises, ATM space, garages and warehouse. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present-value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Bank accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight-line basis. In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

4 Material Accounting Policies (continued)

4.17 Leases (continued)

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Accounting for operating leases by the Bank as a lessor. When assets are leased out under an operating lease, the lease payments receivables are recognised as rental income on a straight-line basis over the lease term.

4.18 Share capital and preferred shares

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity. Dividends for these are only recognised once declared.

4.19 Treasury shares

Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Bank until the equity instruments are reissued, disposed of, or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity. Any gain or loss on reissuance or cancellation is recognised in retained earnings.

4.20 Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

4.21 Share-based payments

Share-based payments. The Bank operates a equity-settled share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Bank.

Employee services settled in equity instruments. The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares determined at the grant date, excluding the impact of any non-market vesting conditions. The attainment of any service and non-market performance vesting conditions are included in assumptions about the number of options that are expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each balance sheet date and the difference is charged or credited to profit or loss, with a corresponding adjustment to equity. No changes to the charge are made when the expected or actual level of awards vesting differs from the original estimate due to non-attainment of market performance conditions, e.g., the appropriate total shareholder return or share price. The proceeds received on exercise of the options net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. Cancelled awards are deemed to have vested upon cancellation. Any unamortised expense associated with such awards is charged to profit or loss immediately.

4.22 Dividends

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The basis for distribution of dividends is statutory retained earnings.

4 Material Accounting Policies (continued)

4.23 Contingent assets and liabilities

Contingent assets are not recognised in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the financial statements in case the possibility of any outflow in settlement is remote.

4.24 Credit related commitments

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan.

To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability. Note 38 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual, commercial or legal obligation. Where the performance guarantee provides the Bank with contractual indemnification rights to recover any payments made to the guarantee holder from the applicant and such rights are covered by collateral, they are treated as a loan commitment provided to the applicant, if the bank concludes that there is no event with commercial substance that could cause the bank to incur an overall loss on the guarantee arrangement. Such performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the amount of the loss allowance determined based on the expected credit loss model.

If performance guarantees do not meet the definition of a financial guarantee in IFRS 9, when there is no debt instrument outstanding between the contractor and the applicant and any payment under the guarantee does not solely depend on a debtor failing to make a payment.

4.25 Provisions

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

From 2016 the Bank creates provision for operational risks. This reserve represents a part of other reserve and is created as an appropriation of retained earnings based on the decision made by the Bank's management.

4 Material Accounting Policies (continued)

4.26 Taxation

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised in the same or a different period in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction when initially recorded affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Certain changes in value of foreign exchange derivatives represent unrealized gains and losses and are therefore treated as temporary differences (Notes 3.3.13). Foreign currency translation differences arising from all other financial assets and liabilities are recognized within foreign exchange gains less losses and do not give rise to temporary differences.

The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest, and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

4.27 Employee benefits and social contributions

(i) 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.

(ii) 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. The Bank also contributes to a defined contribution pension plan. The contribution paid is recorded as an expense under "Pension fund expense" in proportion to the services rendered by the employees to the Bank.

4 Material Accounting Policies (continued)

4.28 Income and expense recognition

Interest income and expense are recorded for all debt instruments other than those at FVTPL on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within ‘other similar income’ line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (i.e., the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount.

The additional interest income, which was previously not recognised in P&L due to the asset being in stage 3 but it is now expected to be received following the asset’s curing, is recognised as a reversal of impairment.

Fee and commission income is recognised over time on a straight-line basis as the services is rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank’s performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees or fees for servicing loans on behalf of third parties.

Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements.

4 Material Accounting Policies (continued)

4.29 Repossessed collateral

Repossessed collateral (foreclosed assets) represents financial and non-financial assets acquired by the Bank in settlement of overdue loans, which include immovable property (e.g., premises) and movable property (cars, equipment, inventories), as well as financial assets such as securities. The assets are initially recognised at cost when acquired and included in the line 'Repossessed collateral' in the Statement of Financial Position. Depending on their nature and the Bank's intention in respect of recovery of these assets, these assets are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

In case of non-financial assets, if the Bank's management makes decision to use acquired immovable property for its own business activities, the Bank reclassifies repossessed collateral such as premises to line 'Premises and Equipment' and account for it in accordance with the accounting policy for property and equipment (Note 4.14).

If the Bank decides to keep premises in its ownership in order to earn rental income or for capital appreciation, or both, and not to occupy premises by the Bank, the Bank reclassifies repossessed collateral to line 'Investment property' and accounts for it in accordance with the accounting policy for investment property (Note 4.15).

In case the Bank makes decision to sell its movable and/or immovable property acquired as repossessed collateral, the Bank applies the accounting policy for inventories and keep them in line 'Repossessed collateral' on the face of the Statement of financial position unless IFRS 5 criteria are met and these assets represent assets held for sale. For details on non-financial repossessed assets, which are planned to be sold, refer to Note 18.

In case of repossessed collateral in the form of financial asset such as securities, which value will be recovered through sale, the Bank classifies them depending on the financial asset's characteristics and business model for IFRS accounting standards measurement purposes and measures them at fair value. Fair value of repossessed financial collateral (securities) is determined on each reporting date and changes in fair value recognised in either profit or loss or in revaluation reserve through other comprehensive income depending on the asset's classification. For details on financial repossessed assets, refer to Note 18.

4.30 Inventories

Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

4.31 Precious metals

The Bank has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price margin. Precious metals are carried at the fair value.

5 Adoption of New or Revised Standards and Interpretations

In the current year, the Bank has applied a number of new standards or amendments to IFRS Accounting Standards issued by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting period that begins on or after 1 January 2023.

Effective date	New accounting standards or amendments
1 January 2023	• IFRS 17 Insurance Contracts • Disclosure of Accounting Policies – Amendment to IAS 1 and IFRS Practice Statement 2 • Definition of Accounting Estimates - Amendments to IAS 8 • Deferred Tax Related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 • Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)
23 May 2023	• International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

The application of the new and amendments to IFRS Accounting Standards in the current year has had no material impact on the Bank's financial positions and performance for the current year and on the disclosures set out in these financial statements.

6 New Accounting Pronouncements

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

The following new standards or amendments are not expected to have a significant impact on the Bank's financial statements.

Effective date	New accounting standards or amendments
1 January 2024	• Non-current Liabilities with Covenants – Amendments to IAS 1 Classification of Liabilities as Current or Non-current – Amendments to IAS 1 • Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 • Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7
1 January 2025	• Lack of Exchangeability – Amendments to IAS 21
Available for optional adoption / effective date deferred indefinitely	• Sales or Contribution of Assets between the Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

7 Cash and Cash Equivalents

Cash and balances with the Bank of Mongolia (other than mandatory reserve)

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Cash on hand	92,126,135	101,014,386
Current account with the Bank of Mongolia (other than mandatory reserve)	1,625,458,623	1,041,389,704
Cash and cash balances with the Bank of Mongolia	**1,717,584,758**	**1,142,404,090**

Cash and balances with the Bank of Mongolia (other than mandatory reserve) are not collateralised. Credit quality of current account with the Bank of Mongolia based on credit risk grade is "satisfactory" and had a B3 rating from Moody's as at 31 December 2023 and 31 December 2022. Currency, interest rate and maturity analysis of Cash and balances with the Bank of Mongolia (other than mandatory reserve) are disclosed in Note 38.

Cash and cash equivalents for the purposes of the cash flow statement are presented below:

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Cash and balances with the Bank of Mongolia (Note 7)	1,717,584,758	1,142,404,090
Treasury bills of the Bank of Mongolia with original maturities of less than three months (Note 10)	596,669,278	647,154,123
Due from banks (Note 9)	672,637,313	489,364,658
Less: credit loss allowance	(2,254,078)	(3,508,383)
Total cash and cash equivalents	**2,984,637,271**	**2,275,414,488**

For the purpose of ECL measurement, cash and cash balances with the Bank of Mongolia are included in Stage 1 as of 31 December 2023 and 31 December 2022. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents with the Bank of Mongolia. However, credit loss allowance is mainly related to due from Russian banks in which is classified in Stage 3. Please see Note 38 for inputs, assumptions and estimation techniques used for ECL calculation.

8 Mandatory cash balances with the Bank of Mongolia

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Mandatory cash balances with the Bank of Mongolia	468,929,955	357,581,959
Mandatory cash balances with the Bank of Mongolia	**468,929,955**	**357,581,959**

Current accounts with the Bank of Mongolia are maintained in accordance with the regulations of the Bank of Mongolia. The mandatory cash balances maintained with the Bank of Mongolia are determined at not less than 8% in MNT and 18% in foreign currency (2022: not less than 8% in MNT and 18% in foreign currency) of customer deposits for a period of 2 weeks. According to the Bank of Mongolia resolution dated 29 March 2018, the Bank shall maintain 50% of the mandatory reserve balance as at the reporting date. Credit quality of current account with the Bank of Mongolia based on credit risk is "satisfactory" as at 31 December 2023 and 31 December 2022. For the purpose of ECL measurement, mandatory cash balances are included in Stage 1 as of 31 December 2023 and 31 December 2022.

8 Mandatory cash balances with the Bank of Mongolia (continued)

The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for mandatory cash balances with the Bank of Mongolia.

9 Due from Other Banks

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Correspondent accounts with other banks		
Foreign	430,661,722	387,577,033
Domestic	28,849,257	18,085,531
Short-term placements with other banks		
Foreign	108,512,806	40,384,037
Domestic	102,359,450	39,809,673
Placements with other banks with original maturities of more than three months	733,271,098	1,081,107,106
Total due from other banks	**1,403,654,333**	**1,566,963,380**

Placements with other banks with original maturities of more than three months as at 31 December 2023 include current accounts with maturities ranging from 1 year to 5 years.

The following table contains an analysis of due from other banks balances by credit quality at 31 December 2023 and 31 December 2022 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurement. Refer to Note 38 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other banks balances.

In thousands of Mongolian Tugriks	**31 December 2023 Stage 1 (12-months ECL)**	**31 December 2022 Stage 1 (12-months ECL)**
- Excellent	1,200,176,301	1,339,750,190
- Good	36,410,920	37,997,524
- Satisfactory	136,698,635	55,955,196
- Special monitoring	32,777,029	137,076,068
Gross carrying amount	**1,406,062,885**	**1,570,778,978**
Less: Credit loss allowance	(2,408,552)	(3,815,598)
Carrying amount	**1,403,654,333**	**1,566,963,380**

Currency, interest rate and maturity analysis of due from other banks are disclosed in Note 38.

10 Investments in Debt Securities

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Debt securities at FVTOCI	1,424,489,434	1,003,207,697
Debt securities at FVTPL	308,603,186	222,344,690
Debt securities at AC	-	4,698,622
Total investments in debt securities	**1,733,092,620**	**1,230,251,009**

10 Investments in Debt Securities (continued)

The table below discloses investments in debt securities at 31 December 2023 by measurement categories and classes:

In thousands of Mongolian Tugriks	**Debt securities at FVTOCI**	**Debt securities at FVTPL**	**Debt securities at AC**	**Total**
Treasury bills of the Bank of Mongolia (a)	978,034,840	-	-	978,034,840
MIK bonds – Senior RMBS (b)	-	77,955,061	-	77,955,061
MIK bonds – Junior RMBS (b)	-	160,031,491	-	160,031,491
Government bonds (c)	404,364,214	48,237,148	-	452,601,362
SFC bonds – Senior (d)	-	9,746,078	-	9,746,078
SFC bonds – Junior (d)	-	12,633,408	-	12,633,408
Corporate bonds (e)	49,781,326	-	-	49,781,326
Total investments in debt securities at 31 December 2023 (gross carrying value)	**1,432,180,380**	**308,603,186**	**-**	**1,740,783,566**
Less: Credit loss allowance	**(7,690,946)**	**-**		**(7,690,946)**
Total investments in debt securities at 31 December 2023 (carrying value)	**1,424,489,434**	**308,603,186**	**-**	**1,733,092,620**

The table below discloses investments in debt securities at 31 December 2022 by measurement categories and classes:

In thousands of Mongolian Tugriks	**Debt securities at FVTOCI**	**Debt securities at FVTPL**	**Debt securities at AC**	**Total**
Treasury bills of the Bank of Mongolia (a)	743,009,418	-	-	**743,009,418**
MIK bonds – Senior RMBS (b)	-	34,374,181	-	**34,374,181**
MIK bonds – Junior RMBS (b)	-	137,676,182	-	**137,676,182**
Government bonds (c)	209,007,375	-	4,759,631	**213,767,006**
SFC bonds – Senior (d)	-	35,105,919	-	**35,105,919**
SFC bonds – Junior (d)	-	11,803,902	-	**11,803,902**
Corporate bonds (e)	56,341,576	3,384,506	-	**59,726,082**
Total investments in debt securities at 31 December 2022 (gross carrying value)	**1,008,358,369**	**222,344,690**	**4,759,631**	**1,235,462,690**
Less: Credit loss allowance	**(5,150,672)**	**-**	**(61,009)**	**(5,211,681)**
Total investments in debt securities at 31 December 2022 (carrying value)	**1,003,207,697**	**222,344,690**	**4,698,622**	**1,230,251,009**

(a) Treasury bills of the Bank of Mongolia

Treasury bills of the Bank of Mongolia at FVTOCI represents investment securities held for satisfying the liquidity and business model in a "held to collect and sell".

Treasury bills of the Bank of Mongolia with original maturities of less than three months are MNT 596,669,278 thousands as at 31 December 2023 (31 December 2022: MNT 647,154,123 thousands) and included in cash and cash equivalents for the purposes of the cash flow statement (Note 7).

10 Investments in Debt Securities (continued)

Treasury bills of the Bank of Mongolia with nominal amount of MNT 522,400 thousands (31 December 2022: MNT 205,728,000 thousands) and MNT 20,700,000 thousands (31 December 2022: MNT 42,800,000 thousands) with maturity of 28 days were collateralised by Repo arrangement (Note 23) and by Project on gold production-2 (Note 22) with Bank of Mongolia, respectively

(b) MIK bonds

The MIK bonds represent the bonds secured by the mortgage loans provided by commercial banks to the customers. The MIK bonds are classified as the same category of contractually linked instrument (mortgage loans) at FVTPL. The Bank had an intention to sell the mortgage loans from the initial recognition (refer to Note 3.3.12). The bond represents Junior and Senior residential mortgage-backed securities (RMBS) obtained from a MIK-HFC securitisation transaction as disclosed in Note 3.

As described in Note 3 the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. Any shortfall in the net assets of MIK-HFC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority).

(c) Government bonds

Debt securities classified at FVTOCI represents investment securities held for satisfying the liquidity and business model in a "held to collect and sell".

Government bonds with nominal amount of MNT 233,976,744 thousands (31 December 2022: MNT 180,152,580 thousands) were collateralised by Repo arrangement. Please see Note 23.

(d) SFC bonds

The SFC bonds represent the bonds secured by the SME loans provided by commercial banks to the customers. The SFC bonds are classified as the same category of contractually linked instrument (SME loans) at FVTPL. The Bank had an intention to sell the SME loans from the initial recognition (refer to Note 3.3.13). The bond represents Junior and Senior asset backed securities obtained from a SFC securitisation transaction as disclosed in Note 3.

As described in Note 3 the Junior SFC bonds will only be redeemed after the full redemption of the principal of the Senior SFC bonds and the payments to Junior SFC bond holders are subordinate in right of payment and priority to the Senior SFC bonds. Any shortfall in the net assets of SFC would be borne by the Senior and Junior SFC bond holders (proportionally in accordance with their seniority in the right of payment and priority).

The SFC senior bonds classified at FVTPL with nominal amount of MNT 7,737,100 thousands (31 December 2022: nill) were collateralised by Repo arrangement. Please see Note 23.

(e) Corporate bonds

Debt securities at FVTPL represent securities held for trading and securities in a ‘held to sell’ business model as the Bank had an intention to realise a trading gain. On initial recognition, the Bank has designated corporate bonds at FVTPL. The corporate bonds at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Bank’s maximum exposure to credit risk and are not collateralised.

Corporate bonds classified at FVTOCI represents investment securities held for satisfying the liquidity and business model in a "held to collect and sell". The corporate bonds at FVTOCI are listed on the Mongolian Stock Exchange and issued by Mongolian Mortgage Corporation with annual interest rate of 8.85%.

Corporate bonds classified at FVTOCI with nominal amount of MNT 19,110,096 thousands (31 December 2022: MNT 38,372,844 thousands) were collateralised by Repo arrangement. Please see Note 23.

10 Investments in Debt Securities (continued)

Investments in debt securities at FVTOCI

The following table discloses Treasury bills of the Bank of Mongolia measured at FVTOCI:

In thousands of Mongolian Tugriks	31 December 2023 Stage 1 (12-months ECL)	31 December 2022 Stage 1 (12-months ECL)
Treasury bills of the Bank of Mongolia		
- Excellent	978,034,840	743,009,418
Total gross carrying amount	**978,034,840**	**743,009,418**
Less: Credit loss allowance	(2,149,817)	(909,136)
Carrying value (fair value)	**975,885,023**	**742,100,282**

The following table discloses government bonds measured at FVTOCI:

	31 December 2023	31 December 2022
In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 1 (12-months ECL)
Government bonds		
- Excellent	396,967,818	235,807,611
Total gross carrying amount	**396,967,818**	**235,807,611**
Less: Credit loss allowance	(5,461,749)	(3,208,263)
Less: Fair value adjustment from AC to FV	7,396,395	(26,800,236)
Carrying value (fair value)	**398,902,464**	**205,799,112**

The following table discloses corporate bonds measured at FVTOCI:

	31 December 2023	31 December 2022
In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 1 (12-months ECL)
Corporate bonds		
- Excellent	50,563,560	77,283,289
Total gross carrying amount	**50,563,560**	**77,283,289**
Less: Credit loss allowance	(79,380)	(1,033,273)
Less: Fair value adjustment from AC to FV	(782,233)	(20,941,713)
Carrying value (fair value)	**49,701,947**	**55,308,303**

10 Investments in Debt Securities (continued)

For description of the credit risk grading used in the tables above, refer to Note 38.

The following table discloses the changes in the credit loss allowance and gross carrying value of debt securities carried at fair value through other comprehensive income between the beginning and the end of the reporting period:

In thousands of Mongolian Tugriks	**Credit loss allowance Stage 1 (12-months ECL)**	**Gross carrying value Stage 1 (12-months ECL)**
Treasury bills of the Bank of Mongolia at FVTOCI		
At 1 January 2023	**909,136**	**743,009,418**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	2,149,817	12,101,844,840
Derecognised during the period	(909,136)	(11,866,819,418)
At 31 December 2023	**2,149,817**	**978,034,840**
Government bonds at FVTOCI		
At 1 January 2023	3,208,263	209,007,375
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	2,844,108	359,520,833
Derecognised during the period	(590,622)	(161,117,877)
Total gross carrying value	**5,461,749**	**407,410,331**
Movements without impact on credit loss allowance charge for the period:		
FX and other movements	-	(3,046,117)
At 31 December 2023	**5,461,749**	**404,364,214**
Corporate bonds at FVTOCI		
At 1 January 2023	1,033,273	56,341,576
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	2,813	1,705,345
Derecognised during the period	(956,706)	(9,164,912)
Total gross carrying value	**79,380**	**48,882,009**
Movements without impact on credit loss allowance charge for the period:		
FX and other movements	-	899,317
At 31 December 2023	**79,380**	**49,781,326**

10 Investments in Debt Securities (continued)

The following table discloses the changes in the credit loss allowance and gross carrying value of debt securities carried at fair value through other comprehensive income between the beginning and the end of the reporting period:

In thousands of Mongolian Tugriks	**Credit loss allowance Stage 1 (12-months ECL)**	**Gross Carrying value Stage 1 (12-months ECL)**
Treasury bills of the Bank of Mongolia at FVTOCI		
At 1 January 2022	**951,283**	**1,563,953,019**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	909,136	10,764,975,676
Derecognised during the period	(951,283)	(11,585,919,277)
At 31 December 2022	**909,136**	**743,009,418**
Government bonds at FVTOCI		
At 1 January 2022	**2,675,792**	**188,825,517**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	532,471	12,699,418
Total gross carrying value	**3,208,263**	**201,524,935**
Movements without impact on credit loss allowance charge for the period:		
FX and other movements	-	37,209,706
Fair value adjustment from AC to FV	-	(29,727,266)
At 31 December 2022	**3,208,263**	**209,007,375**
Corporate bonds at FVTOCI		
At 1 January 2022	861,273	60,510,603
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	172,000	3,676,959
Total gross carrying value	**1,033,273**	**64,187,562**
Movements without impact on credit loss allowance charge for the period:		
FX and other movements	-	12,849,960
Fair value adjustment from AC to FV	-	(20,695,946)
At 31 December 2022	**1,033,273**	**56,341,576**

10 Investments in Debt Securities (continued)

Investments in debt securities at AC

The following table discloses investments in debt securities measured at AC:

In thousands of Mongolian Tugriks	**31 December 2023 Stage 1 (12-months ECL)**	**31 December 2022 Stage 1 (12-months ECL)**
Government bonds		
- Satisfactory	-	4,759,631
Total investments in debt securities measured at AC (gross carrying amount)	**-**	**4,759,631**
Less: Credit loss allowance	**-**	**(61,009)**
Total investments in debt securities measured at AC (carrying amount)	**-**	**4,698,622**

For description of the credit risk grading used in the tables above, refer to Note 38.

The following table discloses the changes in the credit loss allowance for investments in debt securities carried at amortised cost between the beginning and the end of the reporting period:

In thousands of Mongolian Tugriks	**Credit loss allowance Stage 1(12-months ECL)**	**Gross carrying amount Stage 1(12-months ECL)**
Government bonds at AC		
At 1 January 2023	**61,009**	**4,759,631**
Movements with impact on credit loss allowance charge for the period:		
Derecognised during the period	(61,009)	(4,662,110)
Changes in accrued interest	-	(97,521)
Total movements with impact on credit loss allowance charge for the period	**(61,009)**	**(4,759,631)**
At 31 December 2023	-	-

10 Investments in Debt Securities (continued)

The following table discloses the changes in the credit loss allowance for investments in debt securities carried at amortised cost between the beginning and the end of the reporting period:

In thousands of Mongolian Tugriks	Credit loss allowance Stage 1(12-months ECL)	Gross carrying amount Stage 1(12-months ECL)
Government bonds at AC		
At 1 January 2022	**65,191**	**4,749,941**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	(4,182)	-
Changes in accrued interest	-	9,690
Total movements with impact on credit loss allowance charge for the period	**(4,182)**	**9,690**
As at 31 December 2022	**61,009**	**4,759,631**

11 Investments in Equity Securities

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Equity securities at FVTPL	23,634,110	22,103,523
Equity securities at FVTOCI	448,713	409,968
Total investments in equity securities	**24,082,823**	**22,513,491**

The table below discloses investments in equity securities at 31 December 2023 by measurement categories and classes:

In thousands of Mongolian Tugriks	Equity securities at FVTPL	Equity securities at FVTOCI	Total
Corporate shares	23,634,110	448,713	**24,082,823**
Total investments in equity securities at 31 December 2023	**23,634,110**	**448,713**	**24,082,823**

The table below discloses investments in equity securities at 31 December 2022 by measurement categories and classes:

In thousands of Mongolian Tugriks	Equity securities at FVTPL	Equity securities at FVTOCI	Total
Corporate shares	22,103,523	409,968	**22,513,491**
Total investments in equity securities at 31 December 2022	**22,103,523**	**409,968**	**22,513,491**

11 Investments in Equity Securities (continued)

(a) Investments in equity securities at FVTPL

Corporate shares at FVTPL represent securities held for trading and other quoted equity securities for which FVTOCI election was not made on initial recognition.

Corporate shares mainly consist from quoted shares of Mongolian Mortgage Corporation and APU JSC, both listed on Mongolian Stock Exchange, with fair value of MNT 22,521,378 thousands and MNT 1,028,587 thousands as of 31 December 2023 (2022: MNT 20,740,142 thousands and MNT 1,266,411 thousands) respectively.

(b) Investments in equity securities at FVTOCI

As of 31 December 2023, the Bank has invested in MNT 448,713 thousands of equity securities at FVTOCI. The FVTOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

12 Loans and Advances to Customers

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Gross carrying amount of loans and advances to customers at AC	**4,476,287,985**	3,459,083,356
Less: Credit loss allowance	(165,191,588)	(199,150,359)
Total carrying amount of loans and advances to customers at AC	**4,311,096,397**	**3,259,932,997**
Loans and advances to customers at FVTPL / Mortgage/	381,628,167	394,529,262
Loans and advances to customers at FVTPL / SME/	5,460,766	17,260,939
Loans and advances to customers at FVTPL / Corporate/	13,923,375	25,910,147
Total loans and advances to customers	**4,712,108,705**	**3,697,633,345**

The bank holds a MIK mortgage portfolio, and a SME loan portfolio financed by long term REPO financing by the Bank of Mongolia with business model "hold to sell" under IFRS 9. As a result, these loans and advances were classified as at FVTPL from the date of initial recognition.

Loans and advances to customers at FVTPL are measured taking into account the credit risk. The carrying amount presented in the statement of financial position best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2023 and 31 December 2022 are disclosed in the table below:

	31 December 2023			**31 December 2022**		
In thousands of Mongolian Tugriks	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Loans to corporate customers						
Loans to Corporate	1,392,020,561	(95,251,004)	**1,296,769,557**	1,163,669,938	(103,906,237)	**1,059,763,701**
Loans to SME	1,230,570,810	(29,308,467)	**1,201,262,343**	949,395,836	(36,581,312)	**912,814,524**
Loans to individuals						
Consumer loans	1,198,750,359	(36,497,865)	**1,162,252,494**	887,392,253	(53,826,353)	**833,565,900**
Mortgage loans	654,946,255	(4,134,252)	**650,812,003**	458,625,329	(4,836,457)	**453,788,872**
Total loans and advances to customers at AC	**4,476,287,985**	**(165,191,588)**	**4,311,096,397**	**3,459,083,356**	**(199,150,359)**	**3,259,932,997**

More detailed explanation of classes of loans to legal entities and individuals are provided below:

- Loans to Corporate customers – loans issued to large commercial entities under standard terms;
- Loans to SME – loans issued to small and medium-sized enterprises;
- Consumer loans;
- Mortgage loans.

As of 31 December 2023, loss on initial recognition of loans at rates below market in the amount of MNT 2,206 thousand (31 December 2022: MNT 235,786 thousand) has been recorded in profit or loss for the year.

12 Loans and Advances to Customers (continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period:

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Corporate								
At 1 January 2023	**2,769,000**	**5,943,212**	**95,194,025**	**103,906,237**	**875,097,660**	**129,978,866**	**158,593,412**	**1,163,669,938**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- from Stage 2 and Stage 3 to Stage 1	5,155	(5,155)	-	**-**	19,714,951	(19,714,951)	-	**-**
- from Stage 1 and Stage 3 to Stage 2	(630)	630	-	**-**	(6,848,005)	6,848,005	-	**-**
- from Stage 1 and Stage 2 to Stage 3	(4,111,596)	(17)	4,111,613	**-**	(24,254,451)	(7,585,592)	31,840,043	**-**
New originated or purchased	4,926,908	-	4,455,618	**9,382,526**	933,689,045	53,628,119	23,698,845	**1,011,016,009**
Derecognised during the period	(1,651,974)	(2,477,456)	(4,606,946)	**(8,736,376)**	(603,329,088)	(89,695,444)	(14,046,131)	**(707,070,663)**
Write-offs	-	-	(6,248,532)	**(6,248,532)**	-	-	(18,292,565)	**(18,292,565)**
FX and other movements	3,429,710	(3,460,584)	(3,021,977)	**(3,052,851)**	(49,299,055)	(6,796,563)	(1,206,540)	**(57,302,158)**
At 31 December 2023	**5,366,573**	**630**	**89,883,801**	**95,251,004**	**1,144,771,057**	**66,662,440**	**180,587,064**	**1,392,020,561**

12 Loans and Advances to Customers (continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period:

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate								
At 1 January 2022	4,952,809	910,059	20,817,997	**26,680,865**	887,463,025	194,269,029	138,392,414	**1,220,124,468**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- from Stage 2 and Stage 3 to Stage 1	41,800	(35,212)	(6,588)	-	12,730,853	(10,856,579)	(1,874,274)	**-**
- from Stage 1 and Stage 3 to Stage 2	(247,737)	247,737	-	-	(45,791,073)	45,791,073	-	**-**
- from Stage 1 and Stage 2 to Stage 3	(66,110,690)	(7,564,523)	73,675,213	-	(70,725,936)	(22,952,738)	93,678,674	**-**
New originated or purchased	(1,609,592)	(5,695,476)	(3,238,571)	**(10,543,639)**	558,009,718	64,603,793	9,367,986	**631,981,497**
Derecognised during the period	(1,708,408)	-	(2,307,829)	**(4,016,237)**	(412,170,204)	(29,313,251)	(73,324,043)	**(514,807,498)**
Write-offs	-	-	(5,222,685)	**(5,222,685)**	-	-	(4,909,324)	**(4,909,324)**
FX and other movements	67,450,818	18,080,627	11,476,488	**97,007,933**	(54,418,723)	(111,562,461)	(2,738,021)	**(168,719,205)**
At 31 December 2022	**2,769,000**	**5,943,212**	**95,194,025**	**103,906,237**	**875,097,660**	**129,978,866**	**158,593,412**	**1,163,669,938**

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
SME								
At 1 January 2023	1,065,322	91,951	35,424,039	**36,581,312**	791,059,714	41,056,905	117,279,217	**949,395,836**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- from Stage 2 and Stage 3 to Stage 1	197	(197)	-	**-**	3,447,476	(3,321,296)	(126,180)	**-**
- from Stage 1 and Stage 3 to Stage 2	(19,741)	19,909	(168)	**-**	(15,173,497)	15,929,230	(755,733)	**-**
- from Stage 1 and Stage 2 to Stage 3	(854,947)	(1,156,036)	2,010,983	**-**	(8,295,153)	(6,824,899)	15,120,052	**-**
New originated or purchased	844,752	308,266	179,829	**1,332,847**	783,338,354	7,538,420	4,430,693	**795,307,467**
Derecognised during the period	(361,327)	(10,217)	(5,574,514)	**(5,946,058)**	(264,550,193)	(24,310,897)	(24,542,716)	**(313,403,806)**
Write-offs	-	-	(88,056)	**(88,056)**	-	-	(109,280)	**(109,280)**
FX and other movements	392,878	1,076,995	(4,041,451)	**(2,571,578)**	(188,140,975)	(5,698,220)	(6,780,212)	**(200,619,407)**
At 31 December 2023	**1,067,134**	**330,671**	**27,910,662**	**29,308,467**	**1,101,685,726**	**24,369,243**	**104,515,841**	**1,230,570,810**

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
SME								
At 1 January 2022	3,190,681	47,759	36,635,340	**39,873,780**	661,604,004	13,238,715	150,823,097	**825,665,816**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- from Stage 2 and Stage 3 to Stage 1	4,433	(529)	(3,904)	-	5,375,340	(1,771,279)	(3,604,061)	**-**
- from Stage 1 and Stage 3 to Stage 2	(50,208)	50,208	-	-	(11,878,593)	15,048,276	(3,169,683)	**-**
- from Stage 1 and Stage 2 to Stage 3	(409,114)	(133,944)	543,058	-	(3,049,902)	(5,635,194)	8,685,096	**-**
New originated or purchased	(787,603)	(38,201)	(2,653,286)	**(3,479,090)**	465,511,950	25,907,684	14,546,583	**505,966,217**
Derecognised during the period	(704,863)	(20,388)	(8,039,128)	**(8,764,379)**	(191,495,399)	(4,624,027)	(33,793,713)	**(229,913,139)**
Write-offs	-	-	(21,741)	**(21,741)**	-	-	(102,165)	**(102,165)**
FX and other movements	(178,004)	187,046	8,963,700	**8,972,742**	(135,007,686)	(1,107,270)	(16,105,937)	**(152,220,893)**
At 31 December 2022	**1,065,322**	**91,951**	**35,424,039**	**36,581,312**	**791,059,714**	**41,056,905**	**117,279,217**	**949,395,836**

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer								
At 1 January 2023	3,617,123	1,189,627	49,019,603	**53,826,353**	818,074,029	13,464,780	55,853,444	**887,392,253**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- from Stage 2 and Stage 3 to Stage 1	9,283	(8,124)	(1,159)	**-**	1,894,514	(1,564,334)	(330,180)	**-**
- from Stage 1 and Stage 3 to Stage 2	(378,842)	378,964	(122)	**-**	(5,321,057)	5,329,509	(8,452)	**-**
- from Stage 1 and Stage 2 to Stage 3	(2,556,102)	(1,667,921)	4,224,023	**-**	(6,004,159)	(3,399,614)	9,403,773	**-**
New originated or purchased	1,832,114	618,655	695,112	**3,145,881**	709,618,984	9,093,778	1,830,225	**720,542,987**
Derecognised during the period	(829,257)	(252,438)	(9,735,691)	**(10,817,386)**	(324,505,104)	(3,774,206)	(11,716,587)	**(339,995,897)**
Write-offs	-	-	(4,554,972)	**(4,554,972)**	-	-	(9,312,479)	**(9,312,479)**
FX and other movements	1,752,177	822,391	(7,676,579)	**(5,102,011)**	(55,368,111)	(3,749,871)	(758,523)	**(59,876,505)**
At 31 December 2023	**3,446,496**	**1,081,154**	**31,970,215**	**36,497,865**	**1,138,389,096**	**15,400,042**	**44,961,221**	**1,198,750,359**

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer								
At 1 January 2022	7,708,981	1,708,225	77,855,796	**87,273,002**	631,245,234	9,955,887	81,220,812	**722,421,933**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- from Stage 2 and Stage 3 to Stage 1	10,929	(7,900)	(3,029)	-	1,412,203	(965,912)	(446,291)	**-**
- from Stage 1 and Stage 3 to Stage 2	(742,849)	745,671	(2,822)	-	(8,754,128)	8,815,981	(61,853)	**-**
- from Stage 1 and Stage 2 to Stage 3	(4,934,323)	(1,638,032)	6,572,355	-	(8,488,704)	(2,444,400)	10,933,104	**-**
New originated or purchased	(1,722,020)	(311,440)	(844,720)	**(2,878,180)**	486,956,247	3,389,151	1,877,311	**492,222,709**
Derecognised during the period	(1,395,184)	(298,413)	(10,987,267)	**(12,680,864)**	(222,214,828)	(3,885,436)	(13,597,655)	**(239,697,919)**
Write-offs	(585)	-	(14,191,517)	**(14,192,102)**	(23,388)	-	(13,346,947)	**(13,370,335)**
FX and other movements	4,692,174	991,516	(9,379,193)	**(3,695,503)**	(62,058,607)	(1,400,491)	(10,725,037)	**(74,184,135)**
At 31 December 2022	**3,617,123**	**1,189,627**	**49,019,603**	**53,826,353**	**818,074,029**	**13,464,780**	**55,853,444**	**887,392,253**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	**Credit loss allowances**				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Mortgage								
At 1 January 2023	317,039	145,318	4,374,100	**4,836,457**	418,404,283	8,012,000	32,209,046	**458,625,329**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- from Stage 2 and Stage 3 to Stage 1	3,054	(2,776)	(278)	**-**	5,066,938	(3,271,683)	(1,795,255)	**-**
- from Stage 1 and Stage 3 to Stage 2	(34,418)	34,418	-	**-**	(5,515,363)	5,515,363	-	**-**
- from Stage 1 and Stage 2 to Stage 3	(500,921)	(7,736)	508,657	**-**	(2,381,454)	(1,932,824)	4,314,278	**-**
New originated or purchased	177,684	28,865	51,094	**257,643**	288,875,106	1,016,433	417,736	**290,309,275**
Derecognised during the period	(30,181)	(1,747)	(661,956)	**(693,884)**	(40,391,933)	(1,225,362)	(5,693,289)	**(47,310,584)**
Write-offs	-	-	(15,430)	**(15,430)**	-	-	(15,430)	**(15,430)**
FX and other movements	428,658	(121,611)	(557,581)	**(250,534)**	(45,371,129)	(236,750)	(1,054,456)	**(46,662,335)**
At 31 December 2023	**360,915**	**74,731**	**3,698,606**	**4,134,252**	**618,686,448**	**7,877,177**	**28,382,630**	**654,946,255**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Mortgage								
At 1 January 2022	1,393,864	123,078	5,629,543	**7,146,485**	301,572,105	3,937,257	37,224,416	**342,733,778**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- from Stage 2 and Stage 3 to Stage 1	505	(505)	-	**-**	2,420,042	(1,381,993)	(1,038,049)	**-**
- from Stage 1 and Stage 3 to Stage 2	(137,423)	143,524	(6,101)	-	(6,525,405)	6,999,313	(473,908)	**-**
- from Stage 1 and Stage 2 to Stage 3	(738,707)	(188,575)	927,282	**-**	(4,622,809)	(2,034,028)	6,656,837	**-**
New originated or purchased	(120,748)	(1,442)	(62,884)	**(185,074)**	183,662,719	983,760	419,884	**185,066,363**
Derecognised during the period	(117,322)	(4,165)	(1,234,777)	**(1,356,264)**	(29,654,762)	(121,523)	(7,500,899)	**(37,277,184)**
Write-offs	-	-	-	**-**	-	-	-	**-**
FX and other movements	36,870	73,403	(878,963)	**(768,690)**	(28,447,607)	(370,786)	(3,079,235)	**(31,897,628)**
At 31 December 2022	**317,039**	**145,318**	**4,374,100**	**4,836,457**	**418,404,283**	**8,012,000**	**32,209,046**	**458,625,329**

12 Loans and Advances to Customers (continued)

Movements in the expected credit loss allowance for loans to legal entities and individuals during 2023 of are as follows:

In thousands of Mongolian Tugriks	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	Total
Expected credit loss allowance at 1 January 2023	103,906,237	36,581,312	53,826,353	4,836,457	**199,150,359**
Credit loss allowance charge/(recovery) during the year	(6,624,443)	(7,258,274)	(13,505,207)	(686,776)	**(28,074,700)**
Amounts written off during the year as uncollectible	(6,248,534)	(88,056)	(4,554,972)	(15,429)	**(10,906,991)**
Foreign exchange difference	4,217,744	73,485	731,691	-	**5,022,920**
Expected credit loss allowance at 31 December 2023	**95,251,004**	**29,308,467**	**36,497,865**	**4,134,252**	**165,191,588**

During 2023, the Bank has recovered MNT 7,078,190 thousand from previously written-off loans as circumstances and expectations have changed positively for certain borrowers.

Movements in the expected credit loss allowance for loans to legal entities and individuals during 2022 of are as follows:

In thousands of Mongolian Tugriks	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	Total
Expected credit loss allowance at 1 January 2022	**26,680,865**	**39,873,780**	**87,273,003**	**7,146,485**	**160,974,133**
Credit loss allowance charge/(recovery) during the year	82,771,316	(3,187,115)	(18,485,849)	(2,310,028)	**58,788,324**
Amounts written off during the year as uncollectible	(5,117,648)	(72,881)	(14,911,102)	-	**(20,101,631)**
Foreign exchange difference	(428,296)	(32,472)	(49,699)	-	**(510,467)**
Expected credit loss allowance at 31 December 2022	**103,906,237**	**36,581,312**	**53,826,353**	**4,836,457**	**199,150,359**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 38. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Unwinding of discount due to the passage of time because ECL is measured on a present value basis;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

12 Loans and Advances to Customers (continued)

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

The credit quality of loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2023:

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans to Corporate				
- Excellent	1,144,771,057	-	-	**1,144,771,057**
- Good	-	66,662,440	-	**66,662,440**
- Satisfactory	-	-	59,550,995	**59,550,995**
- Special Monitoring	-	-	7,494,349	**7,494,349**
- Default	-	-	113,541,720	**113,541,720**
Gross carrying amount	**1,144,771,057**	**66,662,440**	**180,587,064**	**1,392,020,561**
Less: Credit loss allowance	**(5,366,573)**	**(630)**	**(89,883,801)**	**(95,251,004)**
Carrying amount	**1,139,404,484**	**66,661,810**	**90,703,263**	**1,296,769,557**
Loans to SME				
- Excellent	1,101,685,726	-	-	**1,101,685,726**
- Good	-	24,369,243	-	**24,369,243**
- Satisfactory	-	-	11,622,312	**11,622,312**
- Special monitoring	-	-	15,550,723	**15,550,723**
- Default	-	-	77,342,806	**77,342,806**
Gross carrying amount	**1,101,685,726**	**24,369,243**	**104,515,841**	**1,230,570,810**
Less: Credit loss allowance	**(1,067,134)**	**(330,671)**	**(27,910,662)**	**(29,308,467)**
Carrying amount	**1,100,618,592**	**24,038,572**	**76,605,179**	**1,201,262,343**
Consumer loans				
- Excellent	1,138,389,096	-	-	**1,138,389,096**
- Good	-	15,400,042	-	**15,400,042**
- Satisfactory	-	-	9,632,809	**9,632,809**
- Special monitoring	-	-	4,392,656	**4,392,656**
- Default	-	-	30,935,756	**30,935,756**
Gross carrying amount	**1,138,389,096**	**15,400,042**	**44,961,221**	**1,198,750,359**
Less: Credit loss allowance	**(3,446,496)**	**(1,081,154)**	**(31,970,215)**	**(36,497,865)**
Carrying amount	**1,134,942,600**	**14,318,888**	**12,991,006**	**1,162,252,494**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Mortgage loans				
- Excellent	618,686,448	-	-	**618,686,448**
- Good	-	7,877,177	-	**7,877,177**
- Satisfactory	-	-	11,440,266	**11,440,266**
- Special monitoring	-	-	5,735,921	**5,735,921**
- Default	-	-	11,206,443	**11,206,443**
Gross carrying amount	**618,686,448**	**7,877,177**	**28,382,630**	**654,946,255**
Less: Credit loss allowance	**(360,915)**	**(74,731)**	**(3,698,606)**	**(4,134,252)**
Carrying amount	**618,325,533**	**7,802,446**	**24,684,024**	**650,812,003**

The credit quality of loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2022:

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to Corporate				
- Excellent	875,097,660	-	-	**875,097,660**
- Good	-	129,978,866	-	**129,978,866**
- Satisfactory	-	-	6,339,578	**6,339,578**
- Special monitoring	-	-	18,273,609	**18,273,609**
- Default	-	-	133,980,225	**133,980,225**
Gross carrying amount	**875,097,660**	**129,978,866**	**158,593,412**	**1,163,669,938**
Less: Credit loss allowance	(2,769,000)	(5,943,212)	(95,194,025)	**(103,906,237)**
Carrying amount	**872,328,660**	**124,035,654**	**63,399,387**	**1,059,763,701**
Loans to SME				
- Excellent	791,059,714	-	-	**791,059,714**
- Good	-	41,056,905	-	**41,056,905**
- Satisfactory	-	-	30,986,840	**30,986,840**
- Special monitoring	-	-	19,123,366	**19,123,366**
- Default	-	-	67,169,011	**67,169,011**
Gross carrying amount	**791,059,714**	**41,056,905**	**117,279,217**	**949,395,836**
Less: Credit loss allowance	(1,065,322)	(91,951)	(35,424,039)	**(36,581,312)**
Carrying amount	**789,994,392**	**40,964,954**	**81,855,178**	**912,814,524**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Consumer loans				
- Excellent	818,074,029	-	-	**818,074,029**
- Good	-	13,464,780	-	**13,464,780**
- Satisfactory	-	-	6,933,549	**6,933,549**
- Special monitoring	-	-	7,404,755	**7,404,755**
- Default	-	-	41,515,140	**41,515,140**
Gross carrying amount	**818,074,029**	**13,464,780**	**55,853,444**	**887,392,253**
Less: Credit loss allowance	(3,617,123)	(1,189,627)	(49,019,603)	**(53,826,353)**
Carrying amount	**814,456,906**	**12,275,153**	**6,833,841**	**833,565,900**
Mortgage loans				
- Excellent	418,404,283	-	-	**418,404,283**
- Good	-	8,012,000	-	**8,012,000**
- Satisfactory	-	-	14,666,025	**14,666,025**
- Special monitoring	-	-	6,305,159	**6,305,159**
- Default	-	-	11,237,862	**11,237,862**
Gross carrying amount	**418,404,283**	**8,012,000**	**32,209,046**	**458,625,329**
Less: Credit loss allowance	(317,039)	(145,318)	(4,374,100)	(4,836,457)
Carrying amount	**418,087,244**	**7,866,682**	**27,834,946**	**453,788,872**

For description of the credit risk grading used in the tables above, refer to Note 38.

12 Loans and Advances to Customers (continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2023		**31 December 2022**	
In thousands of Mongolian Tugriks	**Amount**	**%**	**Amount**	**%**
Trade – Whole & Retail	1,273,782,445	26.12%	1,006,186,937	25.82%
Mortgage & House maintenance	1,036,574,420	21.25%	853,154,592	21.89%
Individuals	977,479,856	20.04%	848,222,438	21.77%
Maintenance	252,196,009	5.17%	333,185,231	8.55%
Mining & Exploration	195,460,267	4.01%	180,926,486	4.64%
Manufacturing	246,005,454	5.04%	157,543,374	4.04%
Finance	94,556,590	1.94%	141,467,760	3.63%
Construction	234,932,684	4.82%	125,427,382	3.22%
Transport & Communication	80,421,746	1.65%	59,924,675	1.54%
Real estate	40,849,324	0.84%	46,323,396	1.19%
Home appliances	207,398,409	4.25%	25,295,992	0.65%
Agriculture	22,091,777	0.45%	22,012,833	0.56%
Electricity & Oil	14,094,758	0.29%	20,902,331	0.54%
Car	13,610,877	0.28%	18,502,050	0.47%
Hotel & Restaurant	20,428,655	0.42%	17,466,763	0.45%
Healthcare	34,661,558	0.71%	14,080,113	0.36%
Education	31,191,730	0.64%	13,697,099	0.35%
International organizations	90,740,777	1.86%	7,928,507	0.20%
Social services	2,789,782	0.06%	1,939,963	0.05%
Public service	7,656,406	0.16%	1,599,804	0.04%
Tourism	376,769	0.01%	993,894	0.03%
Entrepreneurship	-	0.00%	2,084	0.01%
Total loans and advances to customers carried at AC and at FVTPL before credit loss allowance	**4,877,300,293**	**100%**	**3,896,783,704**	**100.00%**

12 Loans and Advances to Customers (continued)

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral and credit enhancements held for loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2023:

In thousands of Mongolian Tugriks	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	Total
Loans collateralised by:					
- residential real estate	93,662,013	297,375,295	28,299,765	534,792,597	**954,129,670**
- other real estate	626,814,597	691,588,465	7,151,181	39,919,485	**1,365,473,728**
- tradable securities	80,709,704	1,437,859	-	-	**82,147,563**
- cash deposits	31,468,236	26,225,777	121,176,135	-	**178,870,148**
- machinery and equipment	117,749,664	132,405,971	13,256,540	2,004,979	**265,417,154**
- credit enhancements	275,251,988	59,583,052	19,093,369	59,340,261	**413,268,670**
Total	**1,225,656,202**	**1,208,616,419**	**188,976,990**	**636,057,322**	**3,259,306,933**
Unsecured exposures	166,364,359	21,954,391	1,009,773,369	18,888,933	1,216,981,052
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,392,020,561**	**1,230,570,810**	**1,198,750,359**	**654,946,255**	**4,476,287,985**

Description of collateral held for loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2022:

In thousands of Mongolian Tugriks	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	Total
Loans collateralised by:					
- residential real estate	56,535,624	288,703,930	22,839,503	361,637,993	**729,717,050**
- other real estate	513,800,334	460,958,176	7,235,405	26,332,445	**1,008,326,360**
- tradable securities	27,145,303	1,000	-	-	**27,146,303**
- cash deposits	25,086,951	15,615,230	82,592,682	364,153	**123,659,016**
- machinery and equipment	96,652,818	92,248,859	17,036,761	840,134	**206,778,572**
- credit enhancements	396,868,391	69,745,772	13,053,704	67,060,834	**546,728,701**
Total	**1,116,089,421**	**927,272,967**	**142,758,055**	**456,235,559**	**2,642,356,002**
Unsecured exposures	47,580,517	22,122,869	744,634,198	2,389,770	**816,727,354**
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,163,669,938**	**949,395,836**	**887,392,253**	**458,625,329**	**3,459,083,356**

12 Loans and Advances to Customers (continued)

Credit enhancements consist of the receivables, future revenues, guarantees, inventories and other assets. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The following table provides information on carrying value of loans, for which the Bank did not recognise any expected credit loss allowance because of significant excess of collateral value over the gross carrying value of these loans.

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Loans to corporate customers:		
Loans to Corporate	195,162,647	186,542,460
Loans to SME	380,175,266	410,630,416
Loans to individuals:		
Consumer loans	160,380,754	187,508,773
Mortgage loans	273,926,281	246,612,918
Total significantly over-collateralised loans and advances to customers carried at AC	**1,009,644,948**	**1,031,294,567**

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral on credit-impaired assets at 31 December 2023 is as follows:

	Over-collateralized assets		**Under-collateralized assets**	
In thousands of Mongolian Tugriks	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Credit impaired assets:				
Loans carried at AC:				
Corporate	91,642,807	631,434,644	88,944,256	30,383,267
SME	66,891,133	174,163,986	37,624,708	22,470,507
Consumer	2,821,789	6,780,264	42,139,432	1,166,157
Mortgage	17,302,390	32,816,992	11,080,242	6,964,739
Total	**178,658,119**	**845,195,886**	**179,788,638**	**60,984,670**

12 Loans and Advances to Customers (continued)

The effect of collateral on credit-impaired assets at 31 December 2022 is as follows:

	Over-collateralized assets		Under-collateralized assets	
In thousands of Mongolian Tugriks	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Credit impaired assets:				
Loans carried at AC:				
Corporate	80,004,838	165,096,832	78,588,574	21,005,188
SME	64,740,920	145,276,298	52,538,297	31,731,184
Consumer	2,722,128	5,852,395	53,131,316	2,769,202
Mortgage	17,636,564	34,160,043	14,572,483	10,833,002
Total	**165,104,450**	**350,385,568**	**198,830,670**	**66,338,576**

The Bank obtains collateral valuation at the time of granting loans and generally updates it every one to two years, depending on the significance of the loan exposure. The values of collateral considered in this disclosure are fair value of the collateral and the bank applies haircut of 0-100%, considering liquidity and quality of the pledged assets.

Description of collateral held for loans to corporate and individual customers carried at FVTPL is as follows at 31 December 2023 and 31 December 2022:

	Mortgage		SME		Corporate	
In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**	**31 December 2023**	**31 December 2022**	**31 December 2023**	**31 December 2022**
Loans collateralised by:						
- residential real estate	380,601,098	393,228,095	246,833	1,307,089	-	-
- other real estate	867,455	1,301,167	4,112,821	14,486,014	12,660,716	5,841,779
- machinery and equipments	18,500	-	954,787	1,431,257	-	-
- inventories	-	-	146,325	9,625	487,103	20,068,368
- other assets	-	-	-	26,954	-	-
- guarantee	141,114	-	-	-	775,556	-
Total	**381,628,167**	**394,529,262**	**5,460,766**	**17,260,939**	**13,923,375**	**25,910,147**
Unsecured exposures	-	-	-	-	-	-
Total carrying value loans and advances to customers at FVTPL (amount representing exposure to credit risk for each class of loans at FVTPL)	**381,628,167**	**394,529,262**	**5,460,766**	**17,260,939**	**13,923,375**	**25,910,147**

Other assets mainly include land. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at FVTPL, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”).

12 Loans and Advances to Customers (continued)

The effect of collateral on credit assets /FVTPL/ at 31 December 2023 and 31 December 2022 are as follows:

	31 December 2023		31 December 2022	
In thousands of Mongolian Tugriks	**Carrying value of the loan**	**Value of collateral**	**Carrying value of the loan**	**Value of collateral**
Over-collateralised asset	235,802,494	335,042,208	330,152,328	420,429,864
Under-collateralised asset	165,209,814	131,936,382	107,548,020	89,384,863
Total	**401,012,308**	**466,978,590**	**437,700,348**	**509,814,727**

The cumulative total outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2023 and 31 December 2022:

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Loans to corporate customers:		
Loans to Corporates	69,859,870	149,037,792
Loans to SMEs	18,100,352	21,525,250
Loans to individuals:		
Consumer loans	26,509,456	23,071,612
Total	**114,469,678**	**193,634,654**

The Bank’s policy is to complete legal enforcement steps that were initiated even though the loans were written off, as there is no reasonable expectation of recovery from normal collection processes.

Losses less gains recognised in the profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was MNT 366,679 thousands and amortised cost of modified loans was MNT 10,744,424 thousands as of 31 December 2023 (31 December 2022: MNT 1,688,544 thousands, MNT 17,685,494 thousands respectively).

Refer to Note 41 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 38. Information on related party balances is disclosed in Note 43.

13 Investment Properties

Below is the information on changes in investment properties as follows at 31 December 2023 and 31 December 2022:

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Investment properties at fair value at 1 January	**10,276,475**	**17,427,586**
Disposals	(3,690,000)	(9,124,994)
Transferred from non-current assets classified as held for sale	-	6,284,573
Transferred to premises and equipment	-	(938,084)
Fair value losses	-	(3,372,606)
Investment properties at fair value at 31 December 2023	**6,586,475**	**10,276,475**

The Bank's intention is to keep the premises for the purposes of earning rental income, capital appreciation, or both, and not to occupy premises by the Bank.

As of 31 December 2023, rental income of MNT 412,938 thousands (31 December 2022: MNT 482,923 thousands) was generated from investment properties. Direct operating expenses arising from investment property that generated rental income during the period was nil (31 December 2022: MNT 3,059 thousands).

Where the bank is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows at 31 December 2023 and 31 December 2022:

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Not later than 1 year	-	37,853
Later than 1 year and not later than 2 years	-	-
Total future operating lease payments receivable	**-**	**37,853**

Accounting policy for investment properties is disclosed in Note 4.15.

14 Other Assets

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Other financial assets at FV:		
Precious metals	26,922,637	160,633
Total other financial assets at FV	**26,922,637**	**160,633**
Other financial assets at AC:		
Receivables on cash and settlements services	21,742,284	22,199,583
Receivable from companies	8,287,581	5,161,812
Receivable from individuals	2,870,192	2,334,578
Other financial assets	2,207,247	2,649,866
Less: Credit loss allowance	(6,265,800)	(4,729,407)
Total other financial assets at AC	**28,841,504**	**27,616,432**
Total other financial assets	**55,764,141**	**27,777,065**
Other non-financial assets		
Prepayments for non-current assets	407,878,165	235,161,667
Prepayments for employees' benefits	7,337,146	4,330,089
Prepayments for rent	619,436	584,218
Other prepayments	12,073,534	10,135,869
Other non-financial assets	6,154,270	5,413,220
Total non-financial assets	**434,062,551**	**255,625,063**
Total other assets	**489,826,692**	**283,402,128**

Precious metals mainly consist of gold. For accounting policy of precious metals, please refer to Note 4.

Receivables on cash and settlements services mainly consist of transaction settlement receivables.

Prepayments for non-current assets amount of MNT 407,878,165 thousands relate to new office buildings and other office order contracts.

14 Other Assets (continued)

Tables below contain an analysis of the credit risk exposure of other financial assets at AC at 31 December 2023.

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
Receivables from companies				
- Excellent	3,815,503	-	-	**3,815,503**
- Good	-	123,713	-	**123,713**
- Satisfactory	-	-	3,397	**3,397**
- Special monitoring	-	-	124,071	**124,071**
- Default	-	-	4,220,897	**4,220,897**
Gross carrying amount	**3,815,503**	**123,713**	**4,348,365**	**8,287,581**
Less: Credit loss allowance	(1,263)	(1,514)	(3,999,246)	(4,002,023)
Carrying amount	**3,814,240**	**122,199**	**349,119**	**4,285,558**
Receivables from individuals				
- Excellent	448,494	-	-	**448,494**
- Good	-	31,634	-	**31,634**
- Satisfactory	-	-	24,234	**24,234**
- Special monitoring	-	-	41,579	**41,579**
- Default	-	-	2,324,251	**2,324,251**
Gross carrying amount	**448,494**	**31,634**	**2,390,064**	**2,870,192**
Less: Credit loss allowance	(681)	(506)	(2,259,664)	**(2,260,851)**
Carrying amount	**447,813**	**31,128**	**130,400**	**609,341**
Receivables on cash and settlements services				
- Excellent	21,708,894	-	-	**21,708,894**
- Good	-	29,524	-	**29,524**
- Satisfactory	-	-	2,415	**2,415**
- Special monitoring	-	-	1,252	**1,252**
- Default	-	-	199	**199**
Gross carrying amount	**21,708,894**	**29,524**	**3,866**	**21,742,284**
Less: Credit loss allowance	(21)	(1,476)	(1,429)	**(2,926)**
Carrying amount	**21,708,873**	**28,048**	**2,437**	**21,739,358**
Other financial asset				
- Excellent	2,207,247			**2,207,247**
Gross carrying amount	**2,207,247**	**-**	**-**	**2,207,247**
Less: Credit loss allowance	-	-	-	**-**
Carrying amount	**2,207,247**	**-**	**-**	**2,207,247**

14 Other Assets (continued)

Tables below contain an analysis of the credit risk exposure of other financial assets at AC at 31 December 2022.

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
Receivables from companies				
- Excellent	1,726,131	-	-	**1,726,131**
- Good	-	2,992	-	**2,992**
- Satisfactory	-	-	2,203	**2,203**
- Default	-	-	3,430,486	**3,430,486**
Gross carrying amount	**1,726,131**	**2,992**	**3,432,689**	**5,161,812**
Less: Credit loss allowance	(8,050)	(149)	(3,074,042)	**(3,082,241)**
Carrying amount	**1,718,081**	**2,843**	**358,647**	**2,079,571**
Receivables from individuals				
- Excellent	530,828	-	-	**530,828**
- Good	-	9,878	-	**9,878**
- Satisfactory	-	-	19,104	**19,104**
- Special monitoring	-	-	12,788	**12,788**
- Default	-	-	1,761,980	**1,761,980**
Gross carrying amount	**530,828**	**9,878**	**1,793,872**	**2,334,578**
Less: Credit loss allowance	(1,340)	(220)	(1,645,443)	**(1,647,003)**
Carrying amount	**529,488**	**9,658**	**148,429**	**687,575**
Receivables on cash and settlements services				
- Excellent	22,197,664	-	-	**22,197,664**
- Good	-	1,919	-	**1,919**
Gross carrying amount	**22,197,664**	**1,919**	**-**	**22,199,583**
Less: Credit loss allowance	(67)	(96)	-	**(163)**
Carrying amount	**22,197,597**	**1,823**	**-**	**22,199,420**
Other financial asset				
- Excellent	2,649,866	-	-	**2,649,866**
Gross carrying amount	**2,649,866**	**-**	-	**2,649,866**
Less: Credit loss allowance	-		-	**-**
Carrying amount	**2,649,866**		**-**	**2,649,866**

14 Other Assets (continued)

Movements in the provision for asset impairment are as follows at 31 December 2023:

In thousands of Mongolian Tugriks	Receivable from companies	Receivable from individuals	Receivables on cash and settlement services	Other financial assets	Total
Expected credit loss allowance of other assets at 1 January 2023	**3,082,241**	**1,647,003**	**163**	**-**	**4,729,407**
Credit loss allowance charge/(recovery) during the year	935,279	622,450	(213)	-	**1,557,516**
Exchange difference	(14,619)	(2,083)	2,976	-	**(13,726)**
Amounts written off during the year as uncollectible	(878)	(6,519)	-	-	**(7,397)**
Expected credit loss allowance of other assets at 31 December 2023	**4,002,023**	**2,260,851**	**2,926**	**-**	**6,265,800**

The receivables that are not expected to be fully paid are written off in accordance with the Board of Directors' resolution during 2023.

Movements in the provision for asset impairment during 2022 are as follows:

In thousands of Mongolian Tugriks	Receivable from companies	Receivable from individuals	Receivables on cash and settlement services	Other financial assets	Total
Expected credit loss allowance of other assets at 1 January 2022	**2,910,893**	**1,433,538**	**34,286**	**-**	**4,378,717**
Credit loss allowance charge/(recovery) during the year	334,305	567,834	(34,123)	-	**868,016**
Exchange difference	-	28,882	-	-	**28,882**
Amounts written off during the year as uncollectible	(162,957)	(383,251)	-	-	**(546,208)**
Expected credit loss allowance of other assets at 31 December 2022	**3,082,241**	**1,647,003**	**163**	**-**	**4,729,407**

15 Intangible Assets

In thousands of Mongolian Tugriks	Computer software licences	Land use right	Total
Cost at 1 January 2022	**42,944,586**	**673,313**	**43,617,899**
Accumulated amortization	(25,769,227)	-	**(25,769,227)**
Carrying amount at 1 January 2022	**17,175,359**	**673,313**	**17,848,672**
Additions	9,142,996	20,000	**9,162,996**
Amortisation	(6,063,280)	-	**(6,063,280)**
Carrying amount at 31 December 2022	**20,255,075**	**693,313**	**20,948,388**
Cost at 1 January 2023	52,087,582	693,313	**52,780,895**
Accumulated amortization	(31,832,507)	-	**(31,832,507)**
Carrying amount at 1 January 2023	**20,255,075**	**693,313**	**20,948,388**
Additions	4,299,094	-	**4,299,094**
Transfers	(5,404,096)	-	**(5,404,096)**
Amortisation	(6,362,155)	(6,679)	**(6,368,834)**
Transfers of accumulated amortization	5,404,096	-	**5,404,096**
Carrying amount at 31 December 2023	**18,192,014**	**686,634**	**18,878,648**

16 Premises and Equipment

In thousands of Mongolian Tugriks	Premises	Motor vehicles	Office equipment and computers	Furniture	Leasehold improvement	Construction in progress	Total premises and equipment
Cost/valuation at 1 January 2022	**113,093,920**	**3,604,395**	**94,535,972**	**8,532,246**	**9,058,157**	**650,454**	**229,475,144**
Accumulated depreciation	(10,934,114)	(1,492,931)	(57,376,983)	(3,786,390)	(5,865,384)	-	(79,455,802)
Carrying amount at 1 January 2022	**102,159,806**	**2,111,464**	**37,158,989**	**4,745,856**	**3,192,773**	**650,454**	**150,019,342**
Additions	4,025,017	658,000	14,732,327	844,575	2,810,824	-	**23,070,743**
Transfers	-	-	(175,297)	142,433	-	-	**(32,864)**
Disposals	-	(346,455)	(415,376)	(66,523)	-	-	**(828,354)**
Write-offs	-	-	(2,845,223)	(129,146)	-	-	**(2,974,369)**
Depreciation	(3,474,442)	(367,312)	(15,193,738)	(523,770)	(1,852,211)	-	**(21,411,473)**
Transfers of accumulated depreciation	-	-	-	33,872	-	-	**33,872**
Disposals of accumulated depreciation	-	329,980	135,139	51,322	-	-	**516,441**
Write-offs of accumulated depreciation	-	-	2,845,195	129,108	-	-	**2,974,303**
Carrying amount at 31 December 2022	**102,710,381**	**2,385,677**	**36,242,016**	**5,227,727**	**4,151,386**	**650,454**	**151,367,641**
Cost/valuation at 1 January 2023	**117,118,937**	**3,915,940**	**105,832,403**	**9,323,585**	**11,868,981**	**650,454**	**248,710,300**
Accumulated depreciation	**(14,408,556)**	**(1,530,263)**	**(69,590,387)**	**(4,095,858)**	**(7,717,595)**	**-**	**(97,342,659)**
Carrying amount at 1 January 2023	**102,710,381**	**2,385,677**	**36,242,016**	**5,227,727**	**4,151,386**	**650,454**	**151,367,641**
Additions	7,313,436	694,000	20,029,969	819,994	1,696,297	-	**30,553,696**
Transfers	-	-	15,865	(15,865)	-	-	**-**
Disposals	(7,894,821)	(199,426)	(3,819,344)	(129,331)	-	-	**(12,042,922)**
Write-offs	-	-	(2,130,604)	(154,192)	(5,484,645)	-	**(7,769,441)**
Depreciation	(3,760,495)	(433,340)	(15,533,137)	(537,671)	(1,865,801)	-	**(22,130,444)**
Transfers of accumulated depreciation	-	-	(11,369)	11,369	-	-	**-**
Disposals of accumulated depreciation	1,162,095	166,694	1,970,022	36,945	-	-	**3,335,756**
Write-offs of accumulated depreciation	-	-	2,130,604	153,437	5,484,664	-	**7,768,705**
Carrying amount at 31 December 2023	**99,530,596**	**2,613,605**	**38,894,022**	**5,412,413**	**3,981,901**	**650,454**	**151,082,991**

16 Premises and Equipment (continued)

At 31 December 2023, the carrying amount of premises would have been MNT 92,864,333 thousands (2022: MNT 95,715,719 thousands) had the assets been carried at cost less depreciation.

The amount reconciles to the carrying value of the premises as follows:

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Premises at revalued amount in the statement of financial position	99,530,596	102,710,381
Revaluation reserve presented in equity	(6,666,263)	(6,994,662)
Premises at cost less accumulated depreciation	**92,864,333**	**95,715,719**

Refer to Note 41 for the disclosure for inputs and model used to determine fair value and its sensitivity analysis.

17 Right of Use Assets

The Bank leases various offices and spaces for ATM, garages and warehouses. Rental contracts are typically made for fixed periods of 1 year to 10 years.

The right of use assets by class of underlying items is analysed as follows:

In thousands of Mongolian Tugriks	Buildings	Other	Total
Carrying amount at 1 January 2022	**10,919,417**	**2,081,731**	**13,001,148**
Additions	8,090,621	1,192	**8,091,813**
Disposals	(234,333)	-	**(234,333)**
Depreciation charge	(4,954,003)	(712,003)	**(5,666,006)**
Carrying amount at 31 December 2022	**13,821,702**	**1,370,920**	**15,192,622**
Additions	11,551,050	3,906	**11,554,956**
Disposals	(3,081,835)	-	**(3,081,835)**
Depreciation charge	(6,181,003)	(709,461)	**(6,890,464)**
Carrying amount at 31 December 2023	**16,109,914**	**665,365**	**16,775,279**

As of 31 December 2023, interest expense on lease liabilities was MNT 1,859,443 thousands (31 December 2022: MNT 1,481,221 thousands).

Expenses relating to short-term leases included in administrative and other operating expenses.

In thousands of Mongolian Tugriks	Note	31 December 2023	31 December 2022
Expense relating to short-term leases	29	1,428,551	1,923,903

17 Right of Use Assets (continued)

Total cash outflow for leases as of 31 December 2023 was MNT 12,403,064 thousands (2022: MNT 9,604,783 thousands).

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

18 Repossessed Collateral

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Repossessed collaterals, net	-	43,191,321

Repossessed collateral represents real estate assets and financial assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. In case of repossessed collateral in the form of financial asset such as equity securities, Bank accounts them for IFRS measurement purposes as investments in equity or debt securities and measures them at fair value. The assets were initially recognised at fair value less cost to sell when acquired.

Depending on their nature and the Bank's intention in respect of asset recovery, these assets are subsequently reclassified to appropriate asset categories and re-measured in accordance with the relevant accounting policies.

19 Assets Classified as Held for Sale

Assets classified as held for sale were previously classified as repossessed collateral, acquired by the Bank in settlement of overdue loans. Management approved a plan to sell assets on each transfer of asset. The Bank is actively marketing these assets and expects the sale to complete within 12 months. Further accounting policies of assets classified as held for sale is disclosed in Note 4.10.

Major classes of non-current assets classified as held for sale are as follows:

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Office and commercial spaces	14,483,918	2,155,349
Residential apartments or houses	12,809,144	2,727,220
Buildings	900,000	900,000
Other	908,676	905,006
Total assets held for sale	**29,101,738**	**6,687,575**

During 2023, the Bank sold offices, commercial spaces and residential apartments in amount of MNT 6,356,540 thousands (31 December 2022: 9,784,472 thousands).

During the year, MNT 35,310,562 thousands (2022: MNT 9,557,812 thousands) of assets were transferred from repossessed collateral to Assets classified as Held for Sale.

20 Due to Other Banks

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Short-term placements of other banks	130,991,856	52,394,763
Total due to other banks	**130,991,856**	**52,394,763**

Amount due to other banks and financial institutions represent foreign currency and local currency accounts with Mongolian and foreign banks. Significant increase in due to inter banks related to MNT 102,450,000 thousand back-to-back deposits with domestic bank.

Refer to Note 41 for the disclosure of the fair value of each class of due to other banks. Currency, interest rate and maturity analysis of due to other banks are disclosed in Note 38.

21 Customer Accounts

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Individuals	**3,512,056,303**	**3,048,396,232**
- Current/demand accounts	619,272,411	584,816,587
- Demand deposits	516,937,911	417,143,204
- Term deposits	2,375,845,981	2,046,436,441
Legal entities	**3,131,324,697**	**2,111,440,787**
- Current/settlement accounts	2,166,380,896	1,653,140,375
- Demand deposits	-	5,636,882
- Term deposits	964,943,801	452,663,530
State and public organizations	**1,309,557,722**	**522,698,005**
- Current/settlement accounts	1,237,585,943	481,916,068
- Demand deposits	-	3,046,468
- Term deposits	71,971,779	37,735,469
Other	**83,694,933**	**60,762,843**
- Current/demand accounts	39,472,029	38,191,925
- Demand deposits	-	9,416
- Term deposits	44,222,904	22,561,502
Total customer accounts	**8,036,633,655**	**5,743,297,867**

According to the Mongolian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate paid by the Bank on demand deposits unless otherwise specified by the contract.

At 31 December 2023, the aggregate amount of the top 30 biggest customers is MNT 2,668,207,535 thousands (31 December 2022: MNT 1,379,910,348 thousands) or 33% of total customer accounts (31 December 2022: 24%).

At 31 December 2023, the Bank collateralised deposits of MNT 155,826,085 thousands (31 December 2022: MNT 40,661,342 thousands) for irrevocable commitments under bank guarantee and letter of credit. Interest rate analysis of customer accounts is disclosed in Note 38. Information on related party balances is disclosed in Note 43.

22 Other Borrowed Funds

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
(a) Borrowed funds under projects		
Borrowed funds under Project /MNT/	358,586,882	491,692,237
Borrowed funds under Project /USD/	165,202	222,145
Total borrowed funds under projects	**358,752,084**	**491,914,382**
(b) Borrowings from foreign banks and financial institutions		
Borrowings from other foreign bank /USD/	955,190,880	1,404,347,293
(c) Trade finance from foreign banks and financial institutions		
Trade finance from foreign banks and financial institutions /USD/	94,221,889	4,489,570
Trade finance from foreign banks and financial institutions /EUR/	461,538	12,018,424
Trade finance from foreign banks and financial institutions /CNY/	2,302,331	3,542,423
Total borrowings from foreign banks and financial institutions	**1,052,176,638**	**1,424,397,710**
TOTAL	**1,410,928,722**	**1,916,312,092**

(a) Borrowed funds under projects

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Government price stabilization program		
Housing mortgage program	258,092,912	330,298,612
Fuel reserve program	54,930,001	86,094,425
Project on gold production 2	16,501,796	41,551,434
Project loan of KFW bank	312,800	576,307
Joint projects of Mongolian government and JICA		
Borrowings under SME industry support fund	7,431,219	5,779,061
Joint project of Credit guarantee fund and ADB		
Borrowings under SME industry support fund	2,849,449	2,522,545
Other government projects		
Borrowings under Agriculture and Rural Development Project	17,722,166	24,864,743
Other borrowing under project	165,202	222,145
Borrowings under SME industry support fund	743,560	-
Student development program	2,979	5,110
Total	**358,752,084**	**491,914,382**

As disclosed in Note 3, most of these funds are obtained for specific purposes (issuing loans at advantageous rates to target customers), defined by the lenders or the Government of Mongolia, and therefore they are obtained at interest rates which may be lower than rates at which the Bank could source the funds from other lenders. Interest rate on most of these borrowed funds range between 2% to 12% p.a., while interest rate on most of the loans issued from these sources range between 6% and 25.2% p.a. The management considered whether initial gain on recognition of these borrowings should be recognised and concluded that they meet definition of principal market and that no gains or losses should arise on initial recognition of related borrowings and loans to customers.

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

For management's judgments refer to Note 3. The major programs include funding from the Development Bank of Mongolia on funding specific sectors or types of projects that are related to key priorities for development of Mongolian economy (e.g., achieving diversification of economy) by the Government of Mongolia. These programs are briefly outlined below.

Under Housing Mortgage Program, the Bank received funds since 2014 from the Bank of Mongolia for a mortgage loan program implemented by the Government at an interest rate of 1%, 2% and 4% p.a. Newly issued loans or refinanced loans need to meet specific requirements (apartments with maximum area of 80 square meters, down payment of at least 30% apartment purchase price, good customer's credit history with respective bank and other Mongolian banks etc.) in order to qualify for this program.

As a result of such financing, the Bank is able to advance funds to target customers as determined by its lenders, at advantageous rates of 5%, 6% and 8% p.a. defined by the Bank of Mongolia i.e., the Bank has no discretionary rights in determining interest rates on issued loans. The Bank approves all loans disbursement or refinancing under 6% interest rate and bears the credit risk.

In 2023, the Bank participated in new program funded by UB-SME support center for financing SMEs to support stability of the entities. Under this program, the Bank obtained funding at interest rates of 0% p.a. with maturity date of 17 July 2026 and issued loans to the companies at advantageous interest rate of 3.0% p.a. The Bank bears the credit risk.

In 2021, the Bank participated in a program funded by Bank of Mongolia is for financing fuel companies to increase the fuel reserves. Under this program, the Bank obtained funding at interest rates of 6-14% p.a. with maturity date of 20 December 2024 and issued loans to fuel companies at advantageous interest rate of 9-17% p.a.

In 2020, the Bank participated in a program funded by Bank of Mongolia is for financing gold mining companies to increase the gold reserves and foreign exchange reserve of Bank of Mongolia. Under this program, the Bank obtained funding at interest rates of 6-12% p.a. with maturity date of 31 December 2025 and issued loans to mining companies at advantageous interest rate of 9-15% p.a.

Since 2012, the Bank participates in the KFW program to support employment for providing small and medium sized loans to enterprises to create workplaces and manufacturing. The Bank received related funding from Bank of Mongolia at interest rate of 5% p.a., with maturity date of 25 June 2025. The Bank bears the credit risk in this arrangement.

In 2011, the Bank received borrowings from JICA at an interest rate of 2.0% p.a. The project purpose is to support SMEs and environmental protection projects. Under this program, the Bank obtained funding at interest rates of 2% p.a. with maturity date of 1 October 2033 and issued loans to SMEs at advantageous interest rate of 6% p.a. The project unit's board committee decides to change the loan and funding interest rate in every half year.

Since 2021, the Bank received borrowings from Asian Development Bank at an interest rate of 5% p.a. The joint project of Credit guarantee fund of Mongolia and ADB purpose is to support SMEs` in long term. The bank can grant loans with the interest rate of 8.88-12.34% depending on the guarantee per-centages. Both the Bank and CGF approves the loan disbursement and bears the credit risk separately.

In 2016, the Bank received borrowings from Asian Development Bank at an interest rate of 4.5% p.a. The project purpose is to support agriculture and rural development project. The program was extended until 2029. The bank can grant loans with the interest rate of 8%. The Bank approves all loan disbursement or refinancing and bears the credit risk.

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

The terms of the borrowing agreements with government organizations, central bank, and international financial institutions are provided in below table.

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2023 in thousands of original currencies	Principle balance as of 31 December 2023 in thousands of MNT
Government price stabilization program	Bank of Mongolia	Housing mortgage program	MNT	4/21/2016	12/31/2024	258,092,912	258,092,912
	Bank of Mongolia	Fuel reserve program	MNT	12/13/2021	12/28/2024	54,930,001	54,930,001
	Bank of Mongolia	Project on gold production 2	MNT	6/25/2020	11/25/2025	16,501,796	16,501,796
	Bank of Mongolia	Project loan of KFW bank	MNT	6/8/2012	6/25/2025	312,800	312,800
Joint projects of Mongolian government and JICA	JICA	Borrowings under SME industry support fund	MNT	9/29/2006	10/10/2033	7,431,219	7,431,219
Joint projects of Credit guarantee fund and ADB	ADB	Borrowings under SME industry support fund	MNT	3/22/2021	6/20/2031	2,849,449	2,849,449
Other government projects	Government	Borrowings under Agriculture and Rural Development Project	MNT	5/5/2016	10/25/2029	17,722,166	17,722,166
	Government	Other borrowing under project	USD	10/7/2014	5/1/2027	48	165,202
	Government	Borrowings under SME industry support fund	MNT	7/18/2023	7/17/2026	743,560	743,560
	Government	Student development program	MNT	11/30/2016	12/5/2026	2,979	2,979

22 Other Borrowed Funds (continued)

(b) Borrowings from foreign banks and financial institutions

Borrowings from other foreign bank represent loans obtained from foreign banks and financial institution in the amount between USD 2,500 thousands and USD 100,000 thousands with maturity range of 12 months to 97 months as of 31 December 2023 (2022: between USD 5,000 thousands and USD 100,000 thousands with maturity range of 12 months to 100 months).

USD 200,000 thousands of those borrowings are collateralized by the Bank's current account at the lending banks.

During 2023, several borrowings have been obtained with total amount of USD 45,000 thousands with original maturity range of 12 to 60 months.

(c) Trade finance from foreign banks and financial institutions

The Bank obtained uncommitted revolving trade credit lines from international banks and financial institutions to finance its' trade customers. As of 31 December 2023, the Bank utilised MNT 184,427,134 thousands (31 December 2022: MNT 121,435,331 thousands) of respective credit lines and issued loans for the same amount with the purpose to finance transaction of its' customers. The term of such funding is up to 1 years and cash flows from customers and payment to foreign banks are matching in terms of the timing of interest and principal amount repayment. The Bank bears the credit risk in the case of non-payment by the customer.

At 31 December 2023, the Bank has no breach on borrowings from foreign banks and financial institutions.

Refer to Note 41 for the disclosure of fair value of other borrowed funds. Currency, interest rate and maturity analysis of other borrowed funds are disclosed in Note 38.

23 REPO Arrangements

As of 31 December 2023, MNT 547,659,994 thousands (31 December 2022: MNT 169,906,728 thousands) of sale and repurchase agreements relate to placements from local banks bearing interest rate ranging from 7.0% to 14.0% p.a. (2022: from 6.0-7.0% p.a), with original maturities of 5 and 1095 days (2022: 730-1095 days). These placements are fully collateralized by the Bank of Mongolia treasury bills and corporate bonds disclosed in Note 10. Following the law of prevention, control and reduction of social and economic impact of coronavirus, the Bank participated in a government program to provide loans to non-mining export sector and small and medium enterprises with interest rate of 17%, financed by repo arrangements with the central bank.

As of 31 December 2023, the Bank entered into MNT 164,014,169 thousands (31 December 2022: MNT 41,440,916 thousands) of sale and repurchase agreements to increase its USD reserves. These placements are fully collateralized by the corporate bond at FVTOCI bills disclosed in Note 10.

Reverse sale and repurchase agreement

As of 31 December 2023, MNT 646,835,976 thousands of the reverse sale and repurchase agreements relate to a short-term agreements with local banks, earning interest rate 12% p.a. with original maturity 5 days. The reverse sale and repurchase agreement are fully collateralized by the Bank of Mongolia treasury bills which the Bank has the right, by contract to sell or re-pledge in the case of non-repayment.

24 Other Liabilities

Other liabilities comprise the following:

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Other financial liabilities at AC:	**183,426,999**	**115,112,290**
Liabilities for settlements of transactions	163,115,308	100,236,168
Liabilities for loans sold to MIK with recourse	581,652	739,444
Trade payable	-	124,846
Provision for credit related commitments	2,848,492	1,447,410
Other	16,881,547	12,564,422
Other non-financial liabilities:	**20,808,172**	**16,193,945**
Tax payables other than on income	8,771,190	5,028,759
Payables to employees	10,220,723	7,135,889
Other	1,816,259	4,029,297
Total other liabilities	**204,235,171**	**131,306,235**

Liabilities for settlement transactions were increased as at 31 December 2023 in relation to the softening of the international border restrictions and the last day of the year was a non-business day which resulted an increase in international payments comparing to those in December 2022. The increase in payables to employees is due to increase in salary.

Other financial liabilities are expected to be settled within twelve months after the year-end. All non-financial liabilities are of a short-term nature.

25 Share Capital

In thousands of Mongolian Tugriks except for number of shares	Number of outstanding shares	Ordinary shares	Treasury shares	Share premium	Preferred shares	Treasury preferred shares	Total
At 1 January 2022	**674,552,592**	**168,960,148**	**(322,000)**	**169,486,044**	**25,778,900**	**(9,390,800)**	**354,512,292**
New shares issued	134,104,714	33,526,179	-	131,788,974	-	-	**165,315,153**
Treasury stocks	-	-	-	-	-	(16,388,100)	**(16,388,100)**
Share retirement	-	(322,000)	322,000	206,102	(25,778,900)	25,778,900	**206,102**
At 31 December 2022	**808,657,306**	**202,164,327**	**-**	**301,481,120**	**-**	**-**	**503,645,447**
At 1 January 2023	**808,657,306**	**202,164,327**	**-**	**301,481,120**	**-**	**-**	**503,645,447**
New shares issued	-	-	-	-	-	-	**-**
Share retirement	-	-	-	-	-	-	**-**
At 31 December 2023	**808,657,306**	**202,164,327**	**-**	**301,481,120**	**-**	**-**	**503,645,447**

The nominal registered amount of the Bank’s issued share capital is MNT 202,164,327 thousands (2022: MNT 202,164,327 thousands). Share premium represents the excess of contributions received over the nominal value of shares issued.

25 Share Capital (Continued)

Ordinary shares:

The total authorised number of ordinary shares is 808,657,306 shares (31 December 2022: 808,657,306 shares), with a par value of MNT 250 per share (2022: MNT 250 per share).

During 2023, the Bank did not issue shares.

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

Shareholder	31 December 2023	31 December 2022
	Ownership (%)	Ownership (%)
Golomt Financial Group Co.,Ltd	77.20%	77.20%
Swiss-Mo Investment A.G	5.21%	5.21%
Bodi International Co.,Ltd	3.42%	3.42%
Golomt Investment Limited Co.,Ltd	2.57%	2.57%
Public shares	11.60%	11.60%
Total	**100%**	**100%**

26 Interest Income and Expense

In thousands of Mongolian Tugriks	**2023**	**2022**
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	584,199,144	443,987,232
Debt securities FVTOCI	158,472,951	88,493,920
Due from other banks at AC	25,015,846	22,922,861
Cash deposited in the Bank of Mongolia	22,961,735	20,131,192
Debt securities at AC	512,622	608,832
Reverse repurchase agreements at AC	1,547,881	240,894
Total interest income calculated using the effective interest method	**792,710,179**	**576,384,931**
Other similar income		
Loans and advances to customers at FVTPL	24,155,651	16,829,606
Debt securities FVTPL	23,866,725	16,694,628
Total other similar income	**48,022,376**	**33,524,234**
Total interest income	**840,732,555**	**609,909,165**
Interest expense		
Customer accounts	(271,817,867)	(149,218,403)
Other borrowed funds	(74,825,705)	(57,326,437)
Due to other banks	(1,398,358)	(2,259,749)
Repurchase agreements	(13,539,066)	(14,052,572)
Total interest expense	**(361,580,996)**	**(222,857,161)**
Other similar expense		
Interest expense related to lease liabilities	(1,859,443)	(1,481,221)
Total other similar expense	**(1,859,443)**	**(1,481,221)**
Total interest and other similar expense	**(363,440,439)**	**(224,338,382)**
Net interest income	**477,292,116**	**385,570,783**

Interest income from cash and balances with central bank includes of MNT 11,582,823 thousands (31 December 2022: MNT 9,368,891 thousands), which relates to interest income on placed mandatory reserves received from the Bank of Mongolia based on the resolution of the Bank of Mongolia applicable to all local banks, as the Bank maintained the required level of mandatory reserve during 2023. Increase in interest income from loans and advances related to the overall increase in the interest rates in relation to increase in policy rate and loan disbursement.

Interest income includes approximately MNT 41,382,837 thousands (31 December 2022: MNT 31,811,210 thousands) of interest income, recognised on credit impaired loans to customers.

Management believes that related amounts are fully recoverable, given that impaired loans and advances to customers have high collateral coverage and that non-recoverable amount of interest income is not recognised in the profit or loss account for 2023 and 2022 in accordance with IFRS Accounting standards requirements.

27 Fee and Commission Income and Expense

In thousands of Mongolian Tugriks	**2023**	**2022**
Fee and commission income		
Commissions on operations with plastic cards	56,561,152	48,568,076
Remittance and other service fees	27,511,571	24,130,506
Commissions on documentary business and guarantees	12,620,813	6,174,736
Account service fee and commissions	5,142,056	4,952,097
Brokerage and other service fee	335,298	306,563
Total fee and commission income	**102,170,890**	**84,131,978**
Fee and commission expense		
Commissions on operations with plastic cards	(45,995,134)	(33,549,253)
Bank service expense	(12,233,629)	(4,904,527)
Online transaction expense	(1,883,763)	(1,388,439)
Brokerage and other service fee	(77,891)	(118,966)
Total fee and commission expense	**(60,190,417)**	**(39,961,185)**
Net fee and commission income	**41,980,473**	**44,170,793**

28 Other Operating Income

In thousands of Mongolian Tugriks	**2023**	**2022**
Rental income	2,186,925	991,537
Other income	101,355	163,436
Total other operating income	**2,288,280**	**1,154,973**

29 Administrative and Other Operating Expenses

In thousands of Mongolian Tugriks	Note	2023	2022
Staff costs		84,251,921	64,373,012
Information, consulting and other professional services		34,057,716	38,996,968
Depreciation of premises and equipment	16	22,130,444	21,411,473
Depreciation of right of use assets	17	6,890,464	5,666,006
Amortisation of software and other intangible assets	15	6,368,834	6,063,280
Advertising and marketing services		5,308,526	6,072,956
Stationery expense		4,192,751	3,495,573
Security expense		2,542,124	2,326,850
Taxes (other than income tax)		3,183,713	2,100,901
Loan collection expenses		2,288,019	2,010,466
Telecommunications expense		2,853,037	2,181,413
Short term lease expense	17	1,428,551	1,923,903
Office cleaning expense		2,183,427	1,502,597
Utilities		1,870,073	1,447,049
Voluntary and mandatory insurance		1,230,455	1,055,333
Transportation		2,050,518	1,904,931
Entertainment		1,577,009	1,274,122
Travelling expenses		1,566,130	735,637
Donations		891,429	386,830
Customer engagement expenses		5,923,601	3,375,332
Other		7,370,540	7,041,279
Total administrative and other operating expenses		**200,159,282**	**175,345,911**

In thousands of Mongolian Tugriks	2023	2022
Staff costs consist of:		
Salaries, wages and bonus	73,308,483	55,360,029
Contribution to social and health fund	8,845,970	6,780,120
Share-based payments	-	847,461
Staff benefits	1,257,480	658,404
Pension fund	345,490	260,466
Staff training	494,498	466,532
Total staff costs	**84,251,921**	**64,373,012**

Significant increase in staff costs related to salary increases.

30 Other gains/(losses), net

In thousands of Mongolian Tugriks	2023	2022
Losses less gains on disposal of investment properties	-	(1,608,563)
Gains less losses on disposal of premises and equipment	104,631	197,376
Losses less gains on disposal of repossessed collateral	-	(69,680)
Losses less gains on disposal of asset held for sale	(344,779)	(188,374)
Total other gains/(losses), net	**(240,148)**	**(1,669,241)**

In 2023, the Bank sold offices, commercial spaces and residential apartments in amount of MNT 37,652,930 thousands.

31 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Mongolian Tugriks	**2023**	**2022**
Current tax	98,112,689	53,291,941
Deferred tax	(41,248,638)	24,003,995
Income tax expense for the year	**56,864,051**	**77,295,936**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The Bank provides for income taxes on the basis of 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% (2022: 25%) on the excess of taxable income over MNT 6 billion (2022: MNT 6 billion) in accordance with Mongolian tax legislation.

In thousands of Mongolian Tugriks	**2023**	**2022**
Profit before tax	**266,035,096**	**193,797,984**
Theoretical tax charge at statutory rate (2022: 25%; 2021: 25%)	66,508,774	48,449,496
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Effect of income subject to lower rate	(900,000)	(900,000)
- Income which is exempt from taxation	(3,858,375)	(2,393,903)
- Income which is taxed at different rates	(851,227)	(500,513)
- Non-deductible expenses	964,879	1,469,614
Unrecognised deferred tax assets	(5,000,000)	31,171,242
Income tax expense for the year	**56,864,051**	**77,295,936**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS accounting standards and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

31 Income Taxes (continued)

The tax effect of the movements in these temporary differences in 2023 is detailed below and is recorded at the rate of 25%:

In thousands of Mongolian Tugriks	**1 January 2023**	**Charged/ (credited) to profit or loss**	**Charged directly to OCI**	**31 December 2023**
Tax effect of deductible / (taxable) temporary differences and tax loss carry forwards:				
Provision charge for repossessed collateral, gains less losses on revaluation of investment properties and provision for non-current asset held for sale	41,189,015	(22,734,953)	-	**18,454,062**
Impairment of buildings	9,123,950	(1,379,613)	-	**7,744,337**
Initial loss and modification loss related to loans and advances	1,702,466	(1,732,215)	-	**(29,749)**
Prepaid income – loan origination fee	4,412,450	760,516	-	**5,172,966**
Loan and advances to customers	4,776,735	1,156,366	-	**5,933,101**
Fair valuation of securities at FVTOCI	11,935,487	-	(13,589,028)	**(1,653,541)**
Credit loss allowance of due from other banks	953,900	(351,763)	-	**602,137**
Credit loss allowance of securities at AC and FVTOCI	1,284,542	638,196	-	**1,922,738**
Total deferred tax assets	**75,378,545**	**(23,643,466)**	**(13,589,028)**	**38,146,051**
Allowance for deferred tax assets	(31,171,242)	31,171,242	-	**-**
Deferred tax asset after allowance	**44,207,303**	**7,527,776**	**(13,589,028)**	**38,146,051**
Fair value changes of derivative financial instruments and unrealised foreign exchange differences	(50,744,204)	34,826,073	-	**(15,918,131)**
Loans and advances to customers - interest income on loans overdue more than 90 days	(9,370,561)	(852,339)	-	**(10,222,900)**
Fair valuation of securities at FVTPL	(3,467,719)	(207,958)	-	**(3,675,677)**
Other	(1,368,107)	(44,914)	-	(1,413,021)
Total deferred tax liabilities	**(64,950,591)**	**33,720,862**	**-**	**(31,229,729)**
Net deferred tax asset/(liability)	**(20,743,288)**	**41,248,638**	**(13,589,028)**	**6,916,322**

31 Income Taxes (continued)

The tax effect of the movements in these temporary differences in 2022 is detailed below and is recorded at the rate of 25%:

In thousands of Mongolian Tugriks	**1 January 2022**	**Charged/ (credited) to profit or loss**	**Charged directly to OCI**	**31 December 2022**
Tax effect of deductible / (taxable) temporary differences and tax loss carry forwards:				
Provision charge for repossessed collateral, gains less losses on revaluation of investment properties and provision for non-current asset held for sale	19,317,001	21,872,014	-	**41,189,015**
Impairment of buildings	9,658,852	(534,902)	-	**9,123,950**
Initial loss and modification loss related to loans and advances	5,434,701	(3,732,235)	-	**1,702,466**
Prepaid income – loan origination fee	3,729,800	682,650	-	**4,412,450**
Loan and advances to customers	3,691,282	1,085,453	-	**4,776,735**
Tax losses carry forwards	952,354	(952,354)	-	**-**
Fair valuation of securities at FVTOCI	212,031	(1,021,910)	12,745,366	**11,935,487**
Credit loss allowance of due from other banks	57,798	896,102	-	**953,900**
Credit loss allowance of securities at AC and FVTOCI	46,833	1,237,709	-	**1,284,542**
Total deferred tax assets	**43,100,652**	**19,532,527**	**12,745,366**	**75,378,545**
Allowance for deferred tax assets	-	(31,171,242)	-	**(31,171,242)**
Deferred tax asset after allowance	**43,100,652**	**(11,638,715)**	**12,745,366**	**44,207,303**
Fair value changes of derivative financial instruments and unrealised foreign exchange differences	(38,857,755)	(11,886,449)	-	**(50,744,204)**
Loans and advances to customers - interest income on loans overdue more than 90 days	(11,852,602)	2,482,041	-	**(9,370,561)**
Fair valuation of securities at FVTPL	(685,726)	(2,781,993)	-	**(3,467,719)**
Other	(1,189,228)	(178,879)	-	**(1,368,107)**
Total deferred tax liabilities	**(52,585,311)**	**(12,365,280)**	**-**	**(64,950,591)**
Net deferred tax asset/(liability)	**(9,484,659)**	**(24,003,995)**	**12,745,366**	**(20,743,288)**

32 Other Comprehensive Income Recognised in Each Component of Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of Mongolian Tugriks	2023	2022
Change in value of:		
Items that may be reclassified subsequently to profit or loss:		
Debt securities at fair value through other comprehensive income:		
-Gains less losses arising during the year	53,714,970	(50,471,551)
-Gains less losses reclassified to profit or loss upon disposal	641,141	48,339
Items that will not be reclassified to profit or loss:		
Gains less losses on investments in equity securities at fair value through other comprehensive income	-	(558,251)
Revaluation of premises and equipment	-	
Income tax recorded directly in other comprehensive income	(13,589,028)	12,745,366
Other comprehensive income	**40,767,083**	**(38,236,097)**

33 Dividends

	2023		2022	
In thousands of Mongolian Tugriks	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January				
Dividends declared during the year	40,432,865	-	-	555,404
Dividends paid during the year	(40,432,865)	-	-	(555,404)
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividend per share	**20%**	**-**		**5.9%**

34 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. Diluted earnings per share are resulted from share options and share appreciation for current employees. Basic and diluted earnings per share are calculated as follows:

In thousands of Mongolian Tugriks /except for earning per share/	2023	2022
Profit/(loss) for the year attributable to the shareholders of the Bank	**209,171,045**	**116,502,048**
Less preference dividends declared	-	(555,404)
Profit for the year attributable to the ordinary shareholders of the Bank	**209,171,045**	**115,946,644**
Weighted average number of ordinary shares in issue (thousands)	808,657	707,839
Effect of dilution:		
Shares options and share appreciation	165	331
Weighted average number of ordinary shares adjusted for the effect of dilution (thousands)	**808,822**	**708,170**
Basic earnings per share	258.66	163.80
Diluted earnings per share	258.61	163.73

35 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out an analysis of the Bank's debt and movements for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows:

	Liabilities from financing activities			
In thousands of Mongolian Tugriks	**Other borrowed funds**	**Repo agree-ment**	**Lease liabil-ities**	**Total**
Liabilities from financing activities at 1 January 2023	**1,916,312,092**	**211,347,644**	**16,290,486**	**2,143,950,222**
Cash transactions				
Cash inflows	460,432,436	4,097,128,065	-	**4,557,560,501**
Cash outflows	(836,817,398)	(3,586,092,454)	(10,247,841)	**(4,433,157,693)**
Interest paid	(65,026,043)	(23,108,890)	(1,859,443)	**(89,994,376)**
Non-cash transactions				
Repayment of borrowings in debt securities at FVTPL	(135,116,500)	-	-	**(135,116,500)**
New leases	-	-	11,247,863	**11,247,863**
Interest accrued	69,165,875	13,488,031	1,859,443	**84,513,349**
Amortization on transaction cost	12,527,404	-	99,921	**12,627,325**
Foreign exchange adjustments	(10,549,144)	(1,088,233)	-	**(11,637,377)**
Liabilities from financing activities at 31 December 2023	**1,410,928,722**	**711,674,163**	**17,390,429**	**2,139,993,314**

	Liabilities from financing activities			
In thousands of Mongolian Tugriks	**Other borrowed funds**	**Repo agree-ment**	**Lease liabil-ities**	**Total**
Liabilities from financing activities at 1 January 2022	**1,509,446,027**	**221,912,121**	**14,001,667**	**1,745,359,815**
Cash transactions				
Cash inflows	1,201,130,206	424,211,523	-	**1,625,341,729**
Cash outflows	(970,908,033)	(447,033,190)	(5,758,791)	**(1,423,700,014)**
Interest paid	(46,270,532)	(5,822,717)	(1,481,221)	**(53,574,470)**
Non-cash transactions				
Repayment of borrowings in debt securities at FVTPL	(63,234,300)	-	-	**(63,234,300)**
New leases	-	-	7,628,839	**7,628,839**
Interest accrued	52,041,071	14,052,572	1,481,221	**67,574,864**
Amortization on transaction cost	58,404	-	418,771	**477,175**
Foreign exchange adjustments	234,049,249	4,027,335	-	**238,076,584**
Liabilities from financing activities at 31 December 2022	**1,916,312,092**	**211,347,644**	**16,290,486**	**2,143,950,222**

36 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Board of Directors of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of four main business segments:

Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages.
Mortgages – incorporating the provision of mortgage finance;

SME banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and other products to SME customers;

Corporate – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies;

Other – including central treasury - Funding and centralised risk management activities through borrowings and investing in liquid assets such as short-term placements and corporate and government debt securities. Income and expenses that have not been allocated to the reportable segments as they are deemed to contribute to the overall performance of the Bank rather than a particular segment is also presented in the other segment.

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on accounting under International Financial Reporting Standards. The CODM evaluates performance of each segment based on profit before tax.

36 Segment Analysis (continued)

Segment information for the reportable segments for the period ended 31 December 2023 is set out below:

	31 December 2023				
In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Loans and advances to customers	1,310,692,932	1,206,723,110	2,194,692,663	-	**4,712,108,705**
Customer accounts	3,124,424,067	1,441,420,318	3,470,789,27	-	**8,036,633,655**
Investments in debt securities	310,067,985	-		1,423,024,635	**1,733,092,620**
Investments in equity securities	23,634,110	373,638	-	75,075	**24,082,823**

In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Interest and other similar income	167,189,372	145,514,118	284,480,158	243,548,907	**840,732,555**
Interest and other similar expense	(56,399,067)	(24,121,324)	(200,108,090)	(82,811,958)	**(363,440,439)**
Net internal Funds Transfer Pricing (“FTP”) income/expense	20,678,528	(1,607,864)	105,267,204	(124,337,868)	**-**
Net interest income	**131,468,833**	**119,784,930**	**189,639,272**	**36,399,081**	**477,292,116**
Credit loss allowance	6,624,443	7,258,275	13,505,207	686,775	**28,074,700**
Net interest income / (negative interest margin) after expected credit loss	**138,093,276**	**127,043,205**	**203,144,479**	**37,085,856**	**505,366,816**
Fee and commission income	12,759,748	34,048,456	54,872,438	490,248	**102,170,890**
Fee and commission expense	(9,419,018)	(16,502,640)	(28,427,911)	(5,840,848)	**(60,190,417)**
Net other non-interest income/expense	9,539,239	17,118,046	8,047,833	(115,858,029)	**(81,152,911)**
Administrative and other operating expenses	(41,619,546)	(50,186,530)	(100,374,820)	(7,978,386)	**(200,159,282)**
Profit before tax	**109,353,699**	**111,520,537**	**137,262,019**	**(92,101,159)**	**266,035,096**

36 Segment Analysis (continued)

Internal charges and transfer pricing adjustments have reflected in the performance of each business segment. More specific information on the revenues from external customers for each product and services, or each group of similar products and services is not available and the cost to develop such information is high. Hence the Bank presents operating segments on the basis of the four main segments.

Segment information for the reportable segments for the year ended 31 December 2022 is set out below:

	31 December 2022				
In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Loans and advances to customers	1,085,673,848	930,075,462	1,681,884,035	-	**3,697,633,345**
Customer accounts	1,581,658,356	1,146,662,149	3,014,977,362	-	**5,743,297,867**
Investments in debt securities	277,652,992	-	-	952,598,017	**1,230,251,009**
Investments in equity securities	22,103,523	337,321	-	72,647	**22,513,491**

	31 December 2022				
In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Interest and other similar income	129,239,932	117,194,698	199,020,671	164,453,864	**609,909,165**
Interest and other similar expense	(21,730,573)	(13,999,865)	(125,094,622)	(63,513,322)	**(224,338,382)**
Net internal Funds Transfer Pricing ("FTP") income/expense	(46,016,951)	(35,714,448)	45,213,875	36,517,524	**-**
Net interest income	**61,492,408**	**67,480,385**	**119,139,924**	**137,458,066**	**385,570,783**
Credit loss allowance	(72,990,625)	3,187,115	23,834,022	-	**(45,969,488)**
Net interest income / (negative interest margin) after expected credit loss	**(11,498,217)**	**70,667,500**	**142,973,946**	**137,458,066**	**339,601,295**
Fee and commission income	12,770,871	31,761,145	39,062,984	536,978	**84,131,978**
Fee and commission expense	-	(1,367,330)	(28,614,936)	(9,978,919)	**(39,961,185)**
Net other non-interest income/expense	9,677,959	8,366,996	18,096,308	(50,769,456)	**(14,628,194)**
Administrative and other operating expenses	(26,691,610)	(31,945,254)	(105,125,669)	(11,583,378)	**(175,345,911)**
Profit before tax	**(15,740,997)**	**77,483,057**	**66,392,633**	**65,663,291**	**193,797,984**

37 Significant Non-cash Investing and Financing Activities

Investing transactions that did not require the use of cash and cash equivalents and were excluded from the statement of cash flows are as follows:

In thousands of Mongolian Tugriks	**2023**	**2022**
Non-cash investing activities		
Movement from investment properties to loan collateral	(447,455)	(1,080,300)
Non-cash investing activities	**(447,455)**	**(1,080,300)**

Financing transactions that did not require the use of cash and cash equivalents and were excluded from the statement of cash flows are as follows:

In thousands of Mongolian Tugriks	**2023**	**2022**
Non-cash financing activities		
Repayment of borrowings in debt securities at FVTPL	135,116,500	63,234,300
Non-cash financing activities	**135,116,500**	**63,234,300**

38 Financial Risk Management

The risk management within the bank is carried out with respect to financial risks, operational risk, compliance risk, counterparty and third-party risk, reputational risk, technology risk, legal risks and as well as risks that emerge from time to time. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary objective of the financial risk management function is to keep an appropriate balance between risk and reward within the bank's Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS) which are approved, supported and promoted by the Board of Governors.

RAF and RAS of the bank identify risk boundaries within which management is expected to operate when pursuing the bank's business strategy. It sets high level boundaries of various risk categories from which more detailed risk limits are derived based upon specific policies for specific activities. The RAF and RAS are dynamic by nature and reviewed, where necessary, at least once per annum in conjunction with the Annual Strategic Plan of the Bank. Such interaction ensures a consistent alignment of risk and strategy including the Bank's capital requirements.

The Board of Governors acknowledges that one of its primary objectives is to explicitly enforce the collective oversight and risk governance responsibilities. An important element of this objective is to emphasize key components of risk governance such as risk culture, risk appetite boundaries and their relationship to the Bank's risk capacity as well as overall checks & balances. The Board of Governors adopts a "Three lines of defense" model in risk governance, where management is the first line of defense, the Risk management committee and the Chief risk officer are the second line of defense and Internal audit is the third line of defense.

Risk management is implemented by the executive level managers in accordance with risk management policy and risk limits approved by the Board. Internal audit division and Risk management division provide independent oversight to the implementation of control objects by the business units and employees, also report directly to the Board's Risk committee, Chief Executive Officer and Executive Committee that works under the oversight of the Chief Executive Officer.

38 Financial Risk Management (continued)

Monitoring and controlling risks are primarily performed based on limits established by the relevant committees of the Bank. These limits reflect the business strategy and market environment of the bank as well as level of risk that the bank is willing to accept. As part of its overall risk management, the Bank uses stress testing analysis to manage exposures resulting from possible changes in interest rate, exchange rates and other price risks.

Credit risk. The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the credit division's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness is reported to and reviewed by the Credit Committee. The scale of the credit quality of loans to customers carried at amortised cost is as shown below:

Scale of grade	Impairment status	Stage classification	Days past due
Excellent	not impaired	Stage 1	-
Good	not impaired	Stage 2	-
Satisfactory	Impaired	Stage 3	-
Special monitoring	Impaired	Stage 3	Less than 90
Default	Impaired	Stage 3	Greater than 90

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

38 Financial Risk Management (continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected draw-downs on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the commitment amounts to an on-balance sheet exposure. The Bank's management estimates that 12-month and life-time.

PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, for credit cards issued to individuals, the lifetime exposure is measured over a period that is based on expected life of the credit card contracts, and it is equal to up to 2 years.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes.

The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired in a past business combination.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- Unlikely-to-pay: The borrower meets unlikeliness to pay criteria listed below:
  a. significant financial difficulty of the issuer or obligor;
  b. a breach of contract, such as a default or delinquency in interest or principal payments;
  c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
  d. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
  e. the disappearance of an active market for that financial asset because of financial difficulties;

- The borrower is more than 90 days past due on its contractual payments

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

38 Financial Risk Management (continued)

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Bank's Credit Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due. Please refer to Note 3 for more details.

The Bank considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

ECL for POCI financial assets is always measured on a lifetime basis. The Bank therefore only recognises the cumulative changes in lifetime expected credit losses.

The Bank has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same homogeneous segments of the loan portfolio; and (iii) assessment based on external rating. The Bank performs an assessment on an individual basis for the following types of loans: individually significant loans, that is, individual borrower exposure is above MNT 1,000,000 thousands in stage two or three. The Bank performs an assessment on a portfolio basis for the following types of loans: (i) individual exposure is above MNT 1,000,000 thousands in stage one; (ii) consumer loans to individuals and loans to small and medium businesses. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status, the historical data on losses and other predictive information. The Bank performs an assessment based on external ratings for investment in debt securities as carried at AC and FVTOCI and due from other banks.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Division. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis.

The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (corporate, SME, consumer and mortgage), currency of exposure and product type. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk Management Department.

38 Financial Risk Management (continued)

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future one year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank uses migration matrix statistical approach depending on the segment and days past due bucket to calculate lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of product and seniority of the claim. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products. Collateral value after haircut is incorporated on LGD. If the collateral value after haircut is lower than EAD, the Bank recognizes a loss on difference between EAD and collateral value after haircut multiplied by (1 – Recovery Rate).

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit lines, credit cards issued to individuals and for financial guarantees is defined based on historical statistical analysis.

ECL measurement for cash and cash equivalent, mandatory reserves with the Bank of Mongolia. The ECL measurement for these instruments follows same method as due from other banks. But it's insignificant for cash and mandatory reserves as these instruments have short lifetime of 14 days.

ECL measurement for due from other banks. The ECL measurement for due from other banks differs from other assets (loan, securities etc.). Current accounts have short lifetime which means expected loss is immaterial. For longer term placement, the Bank chooses highest possible credit rated banks with lower probability of default.

38 Financial Risk Management (continued)

The Bank classifies the due from other banks by credit ratings into five grades. The following table shows credit rating range of each grade.

Scale of grade	Credit ratings
Excellent	Aaa – A3
Good	Baa1 – Ba3
Satisfactory	B1 – B3
Special monitoring	Caa1 – CA, unrated
Default	C

The Bank uses following criteria in defining SICR situation for due from other banks:

- 30 days past due;
- Credit rating is downgraded by two or more notches in the last year;
- Default status.

Staging logic follows same method as general expected credit loss measurement:

A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

According to our bank's experience we never encountered loss due to other bank's default or bankruptcy. Nevertheless, we accept that there is possibility of default in future. But our own data is insufficient to account for that possibility. As such we have following differences in measuring PD, LGD, EAD for due from other banks.

The criteria used for the Bank in defining due from other banks is same as general ECL method for loans, except that it includes credit rating of "C" and below, which is defined as "in default" by Agencies.

For probability of default (PD), the Bank uses Moody's report of corporate default rate by alphanumeric rating category for 12-month PD. We downscale 12-month PD to 1-day, to calculate more accurate ECL.

Average Cumulative Issuer-Weighted Global Default rates be Alphanumeric Rating, 1983-2022[1]

Rating	Horizon 1 year	Rating	Horizon 1 year
Aaa	0.0000%	Ba1	0.4943%
Aa1	0.0000%	Ba2	0.7291%
Aa2	0.0000%	Ba3	1.2518%
Aa3	0.0403%	B1	1.8027%
A1	0.0573%	B2	2.8278%
A2	0.0406%	B3	4.2826%
A3	0.0490%	Caa1	3.8158%
Baa1	0.0933%	Caa2	6.7971%
Baa2	0.1586%	Caa3	16.2533%
Baa3	0.2686%	Ca-C	29.2387%

For exposure at default (EAD), the Bank uses carrying amount at the time of calculation as the exposure at default.

For loss given default (LGD), historical data for loss given default analysis is also insufficient. Therefore, we use Moody's report of corporate recovery rate for LGD.

[1] *Source: Annual Default Study: Corporate default rate and recovery rates, 1920-2022.*

38 Financial Risk Management (continued)

ECL measurement for investments in debt securities (Government bonds, Central bank bills and corporate bonds). The ECL measurement for debt securities follows same steps as stated above which means it has same criteria for defining default and SICR as due from other banks. But it differs in calculating PD, LGD due to insufficient data. So, we have following differences in measuring PD and LGD for debt securities.

The Bank classifies the debt securities by overdue days and credit ratings into five grades. The following table shows days past due and credit rating range of each grade.

Scale of grade	Days past due
Excellent	0
Good	1 – 30
Satisfactory	31 – 60
Special monitoring	61 – 90
Default	>90

The Bank uses same criteria in defining SICR situation for debt securities as due from other banks:

- 30 days past due;
- Credit rating is downgraded by two or more notches in the last year;
- Default status.

Staging logic follows same method as general expected credit loss measurement:

A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

Except that it includes credit rating of “C” and below, which is defines as “in default” by Agencies.

For probability of default (PD), as the most debt securities are from sovereign sector issuer, the Bank uses Moody’s report[2] on one-year default rate of sovereign for 12-month PD, which is downscaled to 1 day same as due from other banks.

Issuer-Weighted Cumulative Sovereign Default Rates, 1983-2022[2]

Rating	1 year
Aaa	0.000%
Aa	0.000%
A	0.000%
Baa	0.156%
Ba	0.424%
B	2.447%
Caa-C	12.649%

Due to insufficient internal and external data sources, the bank uses corporate segment historical PD of loan portfolio for corporate or non-finance business sector debt securities.

For loss given default (LGD), the Bank uses “Moody’s data of Recovery rates for sovereign bond (1983-2022)” in measuring LGD for Sovereign sector. Due to insufficient internal and external data sources, the bank uses corporate segment historical LGD of loan portfolio for corporate or non-finance business sector debt securities.

[2] *Source: Sovereign Default and Recovery Rates, 1983-2022.*

38 Financial Risk Management (continued)

ECL measurement for Reverse sale and repurchase agreements. The ECL measurement for reverse sale and repurchase agreements follows same method as debt securities. Only it is fully collateralized by the Bank of Mongolia treasury bills, meaning that it can fully recover from default. So, ECL for reverse sale and repurchase agreements is insignificant.

Forward-looking information incorporated in the ECL models. The assessment ECLs incorporate supportable forward-looking information by using scorecard approach. The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs.

As stated in the IFRS 9 requirements above, complex models are not necessary for all institutions. Given the data quality, historical data and environment, management has decided to apply forward-looking information on the total ECL and not on the single component of ECL (PD, LGD, EAD). The Bank performed an analysis on the relation of observed historical default rate and the macroeconomic variables, which resulted in not so significant relationship between default rate and the macroeconomic variables.

The management have implemented a scorecard Autoregressive Distributed Lag ("ARDL") approach. This approach considers several macroeconomic indicators that are available and uses a duplicable process to apply forward-looking information.

Using several reputable sources of information including Bank of Mongolia, Bloomberg and Trading Economics.

For assets other than loans, such as debt securities and due from other banks, forward looking information is embedded in Moody's report of rating transitions and default. As it provides projections of probabilities, with conditions on issuer-specific information coupled with forward-looking macroeconomic views to assign probabilities of default, withdrawal, upgrade and downgrade to individual issuers, portfolio of issuers, or rating categories.

The results of back testing the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

38 Financial Risk Management (continued)

Offsetting financial assets and financial liabilities. The disclosure set out in the following table include financial assets and financial liabilities that (i) are offset in the Bank's statement of financial position; or (ii) are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statements of financial position.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2023:

				Related amounts not offset in the statements of financial position		
In thousands of Mongolian Tugriks	**Gross amounts of recognised financial instruments**	**Gross amounts of recognised financial instruments offset in the statement of financial position**	**Net amounts of financial instruments presented in the financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral pledged**	**Net amount**
Assets						
Derivative financial asset	202,386,920	-	202,386,920	-	-	202,386,920
Reverse sale and repurchase agreement	646,835,976	-	646,835,976	(646,835,976)	-	-
Total Financial Assets	**849,222,896**	**-**	**849,222,896**	**(646,835,976)**	**-**	**202,386,920**
Liabilities						
Derivative financial liabilities	(2,890,938)	-	(2,890,938)	-	-	(2,890,938)
REPO arrangements	(711,674,163)	-	(711,674,163)	711,674,163	-	-
Total Financial Liabilities	**(714,565,101)**	-	**(714,565,101)**	711,674,163	-	**(2,890,938)**

38 Financial Risk Management (continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2022:

In thousands of Mongolian Tugriks	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the financial position	Related amounts not offset in the statements of financial position: Financial instruments (including non-cash collateral)	Related amounts not offset in the statements of financial position: Cash collateral pledged	Net amount
Assets						
Derivative financial asset	457,415,688	(21,269,579)	436,146,109	-	-	436,146,109
Reverse sale and repurchase agreement	-	-	-	-	-	-
Total Financial Assets	**457,415,688**	**(21,269,579)**	**436,146,109**	**-**	**-**	**436,146,109**
Liabilities						
Derivative financial liabilities	(21,269,579)	21,269,579	-	-	-	-
REPO arrangements	(211,347,644)	-	(211,347,644)	211,347,644	-	-
Total Financial Liabilities	**(232,617,223)**	**21,269,579**	**(211,347,644)**	**211,347,644**	**-**	**-**

38 Financial Risk Management (continued)

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates, (c) equity products, (d) commodity, and (e) financial instruments (including derivatives), all of which are exposed to general and specific market movements. Management sets limits for the key metrics of market risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. As such, the bank revises our contingency plan for a crisis, annually.

Risk tolerances for the Bank's activities in financial markets are moderate level and are outlined in related policies. The Risk Management Committee of the Board establishes annual risk strategy statement, which sets an overall limit for market risk and sub-limits for sectors and instruments. The Asset and Liability Committee (ALCO) monitor market risk exposure within the parameters set by the Risk Management Committee through a review of interest rate and currency exchange rate exposures and identifies current events and forecasts future developments that could have a material adverse impact upon the Bank's operations and financial condition.

The Director of the Treasury Division manages the day-to-day market risk by monitoring the Bank's asset composition, investment instruments and categories, in each case as directed per the policies and procedures approved by the Risk Management Committee, the Board of Directors and ALCO. Risk Management Division is mainly responsible for the market risk management and reports directly to the Chief Executive Officer and operates under the ongoing oversight and supervision of the ALCO.

Currency risk. Currency risk arises when a bank holds assets or liabilities in foreign currencies and impacts the earnings and capital of the Bank due to the fluctuations in the exchange rates. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Any unhedged position in a particular currency gives rise to foreign exchange risk. In respect of currency risk, management sets limit on the level of exposure by currency and in total for both overnight and intra-day positions.

The Board of Governors sets risk appetite on the level of risk within the foreign exchange portfolio such as unhedged position limit and total portfolio "Value-at-risk" limit. The ALCO of the Bank develops foreign currency trading limits of specific branches in accordance with the Board approved higher-level foreign currency risk appetite.

The Bank measures its foreign currency unhedged position risk by using "Value at risk" model. Within specific confidence level, the highest potential risks resulting from foreign currency fluctuation are estimated based on three different types of "VaR" methodology, namely variance-covariance, historical and Monte Carlo simulation method.

Measurement periods of one and ten trading days are used in VaR analysis and results are verified by an automated daily programme of back testing to compare the actual profits and losses realized in trading activities to VaR estimates. A measurement period of ten trading days complies with the Bank of Mongolia's regulations and results in a confidence level of 99.0 percent. In addition to VaR methodology, the bank also conducts recurrent stress testing to identify potential losses in excess of the projected VaR.

The Bank uses the following hedging techniques in foreign currency risk management, such as:

- Matching foreign currency assets and liabilities to certain extent;
- Hedging using derivatives such as foreign currency swaps and forward contracts;
- Diversifying foreign currency portfolio based on marginal VaR and component VaR results.

Indirect currency risk resulting in NPL increase is the issued loans denominated in foreign currencies and depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Mongolian Tugriks may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses. The share of loans that are exposed to currency risk has certain risk limit, which is regularly updated depending on the market situation and the Bank's business plan.

38 Financial Risk Management (continued)

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

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with the Bank of Mongolia	500,249,111	806,611,532	57,344,920	353,379,195	**1,717,584,758**
Mandatory cash balances with the Bank of Mongolia	157,467,328	311,462,627	-	-	**468,929,955**
Reverse sale and repurchase agreement	646,835,976	-	-	-	**646,835,976**
Due from other banks	5,433,480	1,219,150,129	30,164,393	148,906,331	**1,403,654,333**
Investments in debt securities	1,239,306,602	493,786,018	-	-	**1,733,092,620**
Loans and advances to customers	4,572,462,547	137,332,853	283,706	2,029,599	**4,712,108,705**
Other financial assets	55,585,230	(80,367)	63,309	195,969	**55,764,141**
Total monetary financial assets	**7,177,340,274**	**2,968,262,792**	**87,856,328**	**504,511,094**	**10,737,970,488**
Monetary financial liabilities					
Due to other banks	102,818,117	10,457,077	14,505,900	3,210,762	**130,991,856**
Customer accounts	4,803,421,646	2,692,218,996	71,484,444	469,508,569	**8,036,633,655**
- Current Accounts	2,206,780,141	1,615,014,786	37,247,727	203,668,625	**4,062,711,279**
- Demand Savings	331,568,185	161,752,602	13,243,341	10,373,783	**516,937,911**
- Term deposits	2,265,073,320	915,451,608	20,993,376	255,466,161	**3,456,984,465**
Other borrowed funds	349,787,396	1,058,377,457	461,538	2,302,331	**1,410,928,722**
REPO arrangements	547,659,994	164,014,169	-	-	**711,674,163**
Other financial liabilities	156,297,005	19,909,083	1,261,976	5,958,935	**183,426,999**
Total monetary financial liabilities	**5,959,984,158**	**3,944,976,782**	**87,713,858**	**480,980,597**	**10,473,655,395**
Less: Derivatives	(841,097,939)	1,040,696,600	(52,565)	(50,114)	**199,495,982**
Net balance sheet position	**2,058,454,055**	**(2,017,410,590)**	**195,035**	**23,580,611**	**64,819,111**

38 Financial Risk Management (continued)

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2022. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currencies.

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with the Bank of Mongolia	798,739,886	143,544,872	63,356,714	136,762,618	**1,142,404,090**
Mandatory cash balances with the Bank of Mongolia	110,266,797	247,315,162	-	-	**357,581,959**
Due from other banks	1,954,810	1,475,505,273	9,542,401	79,960,896	**1,566,963,380**
Investments in debt securities	917,160,109	313,090,900	-	-	**1,230,251,009**
Loans and advances to customers	3,451,538,853	227,028,816	18,562,835	502,841	**3,697,633,345**
Other financial assets	26,367,271	1,197,605	91,116	121,073	**27,777,065**
Total monetary financial assets	**5,306,027,726**	**2,407,682,628**	**91,553,066**	**217,347,428**	**8,022,610,848**
Monetary financial liabilities					
Due to other banks	40,411,791	9,693,059	1,444,341	845,572	**52,394,763**
Customer accounts	3,422,863,051	2,038,233,479	79,220,034	202,981,303	**5,743,297,867**
- Current Accounts	1,578,690,458	985,660,916	47,332,381	146,381,199	**2,758,064,954**
- Demand Savings	210,674,967	173,810,898	13,338,848	28,011,258	**425,835,971**
- Term deposits	1,633,497,626	878,761,665	18,548,804	28,588,847	**2,559,396,942**
Other borrowed funds	480,966,640	1,419,768,033	12,034,996	3,542,423	**1,916,312,092**
REPO arrangements	169,906,728	41,440,916	-	-	**211,347,644**
Other financial liabilities	92,502,570	19,654,679	608,318	2,346,723	**115,112,290**
Total monetary financial liabilities	**4,206,650,780**	**3,528,790,166**	**93,307,689**	**209,716,021**	**8,038,464,656**
Less: Derivatives	1,850,331,536	(1,396,926,319)	(1,504,298)	(15,754,810)	**436,146,109**
Net balance sheet position	**(750,954,590)**	**275,818,781**	**(250,325)**	**23,386,217**	**(451,999,917)**

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
US Dollar strengthening by 15% (2022: strengthening by 15%)	(302,611,588)	41,372,817
US Dollar weakening by 15% (2022: weakening by 15%)	302,611,588	(41,372,817)
Euro strengthening by 15% (2022: strengthening by 15%)	29,255	(37,549)
Euro weakening by 15% (2022: weakening by 15%)	(29,255)	37,549
Other strengthening by 15% (2022: strengthening by 15%)	3,537,092	3,507,933
Other weakening by 15% (2022: weakening by 15%)	(3,537,092)	(3,507,933)

38 Financial Risk Management (continued)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The principal objective of the Bank's interest rate risk management activities is to increase profitability by limiting the effect of adverse interest rate movements and increasing net interest income by managing interest rate exposure.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions. The bank manages interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk. Methods used to estimate the degree of interest rate risk include gap analysis (mismatch management), duration analysis (analysis of weighted average maturities), and interest income simulation. Additionally, the bank manages and minimizes risk through interest gap management, interest risk hedging and compliance with established limits. The process of interest rate limits includes (i) limit on maximum loss, (ii) limits on interest rate gap and (iii) minimum interest rate on allocation of resources.

The Asset and Liability Committee sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored regularly. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

At 31 December 2023, if interest rates at that date had been 10% higher/(lower) (2022: 10% higher/lower) with all other variables held constant, profit or loss and equity for the year would have been MNT 58,201,687 thousands (2022: MNT 45,199,992 thousands) higher/(lower), mainly as a result of high net interest sensitivity gap and changes interest rates during 2023.

The Bank's exposure to interest rate risk at the end of the reporting period is not representative of the typical exposure during the year. For the average exposure during 2023, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 51,700,839 thousands higher/(lower) (2022: MNT 28,611,392 thousands higher/(lower)). The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates:

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2023						
Financial assets	4,498,178,688	1,299,882,989	686,993,716	2,944,765,381	1,534,619,457	**10,964,440,231**
Financial liabilities	(2,019,894,587)	(2,534,300,183)	(1,949,454,606)	(1,498,797,551)	(2,474,099,406)	**(10,476,546,333)**
Net interest sensitivity gap at 31 December 2023	**2,478,284,101**	**(1,234,417,194)**	**(1,262,460,890)**	**1,445,967,830**	**(939,479,949)**	**487,893,898**
At 31 December 2022						
Financial assets	2,919,044,944	387,143,467	1,233,198,801	2,736,831,510	1,205,051,726	**8,481,270,448**
Financial liabilities	(834,574,091)	(993,344,527)	(2,688,319,304)	(1,793,902,650)	(1,728,324,084)	**(8,038,464,656)**
Net interest sensitivity gap at 31 December 2022	**2,084,470,853**	**(606,201,060)**	**(1,455,120,503)**	**942,928,860**	**(523,272,358)**	**442,805,792**

38 Financial Risk Management (continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	31 December 2023				31 December 2022			
In % p.a.	**MNT**	**USD**	**EUR**	**Other**	**MNT**	**USD**	**EUR**	**Other**
Assets								
Mandatory reserves at Bank of Mongolia	6.0%	0.0%	0.0%	0.0%	5.5%	0.0%	0.0%	0.0%
Due from other banks	15.0%	1.6%	2.8%	0.0%	0.0%	1.2%	0.0%	0.0%
Reverse sale and repurchase agreement	12.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances to customers	15.1%	11.0%	11.5%	7.8%	13.2%	7.9%	8.6%	7.2%
Investments in debt securities	12.5%	6.0%	0.0%	0.0%	12.1%	6.5%	0.0%	0.0%
Liabilities								
Due to other banks	13.0%	0.0%	0.0%	0.0%	10.9%	0.0%	0.0%	0.0%
Customer accounts								
- Current/settlement accounts	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Demand deposits	6.4%	1.3%	0.8%	0.7%	0.0%	0.0%	0.0%	0.0%
- Time deposits	12.5%	3.1%	1.4%	4.3%	9.8%	2.5%	1.3%	1.7%
REPO agreements	13.6%	9.6%	0.0%	0.0%	6.1%	8.0%	0.0%	0.0%
Other borrowed funds	4.0%	3.2%	6.6%	5.1%	7.6%	2.7%	5.6%	3.9%

Other price risk. The Bank has limited exposure to equity price risk. Transactions in equity products are monitored and authorised by the Bank treasury. At 31 December 2023, if equity prices at that date had been 15% (2022: 15%) lower (higher) with all other variables held constant, profit and equity for the year would have been MNT 2,408,552 thousands (2022: MNT 3,315,528 thousands) lower (higher).

The Bank is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Bank's current year profit loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2022: no material impact).

Geographical risk concentrations. The Bank is not exposed to geographical concentration risk, as almost all of its financial assets and credit related commitments are placed in Mongolia as of 31 December 2023 and 31 December 2022. A major part of the financial liabilities for 31 December 2023 and 31 December 2022 relates to Mongolia. The management believes that the Bank's exposure to geographical concentration risk is mitigated due to relatively high customer diversification and industry diversification.

Other 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.

38 Financial Risk Management (continued)

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, the Bank of Mongolia ("Central Bank") sets the following limits: i.e. The maximum amount of the overall credit exposures issued and other credit-equivalent assets to the individual and his/her related persons shall not exceed 20 percent of the capital of the Bank; ii. The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed the 5 percent of the capital for one related person to the Bank, and the aggregation of overall lending to the related persons shall not exceed 20 percent of the capital of the Bank.

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers. The Bank's exposure to concentration risk, including industry concentration risk, is disclosed in Note 12.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Bank's liquidity risk management framework is designed to measure and manage liquidity at various levels of consolidation such that short- and medium-term payment obligations could be met under normal or stressed conditions. Liquidity management is implemented centrally on a real-time basis by the Treasury Division through all the bank's divisions and branches, in accordance with the forecasts and internal requirements and the director of the Treasury Division is consulted on each major credit decision regarding the impact of credit on overall liquidity position. The Board's Risk management committee sets liquidity risk standards in accordance with regulatory requirements and international best practice, thereby establishing a comprehensive framework to the bank's liquidity risk management. As part of a comprehensive liquidity risk evaluation, the ALCO incorporates and monitors the cumulative effect of the following factors: (i) short- and long-term cash flow management; (ii) maintaining a structurally sound balance sheet; (iii) foreign currency liquidity management; (iv) preserving a diversified funding base; (v) undertaking regular liquidity stress testing; and (vi) maintaining adequate liquidity contingency plans.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Mongolia. The liquidity ratio during the year was as follows:

	2023	2022
Liquidity performance of the year end	39.10%	36.29%
Average during the period	45.55%	36.40%
Highest	41.30%	41.30%
Lowest	30.98%	32.41%

The Bank conducts the liquidity stress test in order to identify the sudden and severe stress events and ensure the adequate liquidity even after the economic shocks. Risk Appetite Statement defines the amount of liquidity buffer to add to absorb liquidity-related shocks and maintain the flow of lending to the real economy.

The table below shows the assets and liabilities as at 31 December 2023 and 31 December 2022 by their remaining contractual maturity.

The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

38 Financial Risk Management (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2023 is as follows:

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with the Bank of Mongolia	1,717,584,758	-	-	-	-	**1,717,584,758**
Mandatory cash balances with the Bank of Mongolia	468,929,955	-	-	-	-	**468,929,955**
Reverse sale and repurchase agreement	646,835,976	-	-	-	-	**646,835,976**
Due from other banks	658,048,221	391,330,142	14,801,796	345,577,143	-	**1,409,757,302**
Investments in debt securities	651,385,000	363,050,731	56,513,798	421,755,038	816,525,253	**2,309,229,820**
Investments in equity securities	24,082,823	-	-	-	-	**24,082,823**
Loans and advances to customers	343,322,244	731,184,531	845,069,668	2,831,760,149	1,896,510,622	**6,647,847,214**
Derivative financial assets	202,709	84,031,984	4,772,182	113,380,045	-	**202,386,920**
- inflows	202,709	370,874,015	28,239,806	577,685,345	-	**977,001,874**
- outflows	-	(286,842,031)	(23,467,624)	(464,305,299)	-	**(774,614,954)**
Other financial assets	51,677,977	212,790	949,572	2,862,828	60,974	**55,764,141**
Total Financial Assets	**4,562,069,663**	**1,569,810,178**	**922,107,016**	**3,715,335,203**	**2,713,096,849**	**13,482,418,909**
Liabilities						
Due to other banks	131,113,624	-	-	-	-	**131,113,624**
Customer accounts						
- Current/settlement accounts	607,873,522	227,041,806	600,573,604	464,172,486	2,163,049,861	**4,062,711,279**
- Demand deposits	77,345,607	28,888,717	76,416,768	59,061,139	275,225,680	**516,937,911**
- Term deposits	519,179,537	1,877,114,400	1,071,897,580	109,501,940	7,821,031	**3,585,514,488**
Other borrowed funds	295,054	412,963,195	121,045,686	930,428,197	35,164,709	**1,499,896,841**
REPO arrangements	503,300,337	26,905,191	179,262,751	20,401,926	-	**729,870,205**
Derivative financial liabilities	127,797	2,685,645	77,496	-	-	**2,890,938**
- inflows	-	(51,926,634)	(11,793,209)	-	-	**(63,719,843)**
- outflows	127,797	54,612,279	11,870,705	-	-	**66,610,781**
Other financial liabilities	182,888,614	351,037	93,782	93,566	-	**183,426,999**
Total Financial Liabilities	**2,022,124,092**	**2,575,949,991**	**2,049,367,667**	**1,583,659,254**	**2,481,261,281**	**10,712,362,285**
Credit related commitments	**128,707,059**	**389,286,943**	**298,424,334**	**499,658,745**	**30,470,288**	**1,346,547,369**
Guarantee and LC	106,601,075	273,123,960	113,797,203	258,410,125	24,661,688	**776,594,051**
Credit Line undrawn	22,105,984	116,162,983	184,627,131	241,248,620	5,808,600	**569,953,318**
Net Gap	**2,411,238,512**	**(1,395,426,756)**	**(1,425,684,985)**	**1,632,017,204**	**201,365,280**	**1,423,509,255**
Accumulated Net Gap	**2,411,238,512**	**1,015,811,756**	**(409,873,229)**	**1,222,143,975**	**1,423,509,255**	

38 Financial Risk Management (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2022 is as follows:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with the Bank of Mongolia	1,142,404,090	-	-	-	-	**1,142,404,090**
Mandatory cash balances with the Bank of Mongolia	357,581,959	-	-	-	-	**357,581,959**
Due from other banks	496,301,297	17,666,653	367,619,425	705,577,121	-	**1,587,164,496**
Investments in debt securities	649,928,095	69,197,301	51,345,446	290,582,375	561,187,488	**1,622,240,705**
Investments in equity securities	22,513,491	-	-	-	-	**22,513,491**
Loans and advances to customers	262,512,704	474,848,723	855,769,304	1,942,840,163	1,523,701,208	**5,059,672,102**
Derivative financial instruments-asset	8,374,137	111,840	124,460,563	303,199,569	-	**436,146,109**
- inflows	37,432,781	21,706,244	235,225,696	382,752,526	-	**677,117,247**
- outflows	(29,058,644)	(21,594,404)	(110,765,133)	(79,552,957)	-	**(240,971,138)**
Other financial assets	26,033,455	160,839	1,553,352	29,419	-	**27,777,065**
Total Financial Assets	**2,965,649,228**	**561,985,356**	**1,400,748,090**	**3,242,228,647**	**2,084,888,696**	**10,255,500,017**
Liabilities						
Due to other banks	52,394,763	-	-	-	-	**52,394,763**
Customer accounts						
- Current accounts	412,668,916	154,132,550	407,713,198	315,114,164	1,468,436,127	**2,758,064,955**
- Demand deposits	63,714,695	23,797,548	62,949,549	48,652,569	226,721,609	**425,835,970**
- Term deposits	102,747,487	713,969,548	1,605,086,419	222,629,915	-	**2,644,433,369**
Other borrowed funds	91,422,666	13,384,359	598,298,221	1,308,603,844	44,317,685	**2,056,026,775**
REPO arrangements	-	97,661,680	101,772,659	20,331,109	-	**219,765,448**
Other financial liabilities	111,977,417	1,490,165	1,576,278	68,430	-	**115,112,290**
Total Financial Liabilities	**834,925,944**	**1,004,435,850**	**2,777,396,324**	**1,915,400,031**	**1,739,475,421**	**8,271,633,570**
Credit related commitments	**254,480,934**	**156,064,537**	**142,626,109**	**364,132,952**	**34,151,519**	**951,456,051**
Guarantee and LC	235,738,535	92,130,009	75,165,080	236,909,716	26,651,519	**666,594,859**
Credit Line undrawn	18,742,399	63,934,528	67,461,029	127,223,236	7,500,000	**284,861,192**
Net Gap	**1,876,242,350**	**(598,515,031)**	**(1,519,274,343)**	**962,695,664**	**311,261,756**	**1,032,410,396**
Accumulated Net Gap	**1,876,242,350**	**1,277,727,319**	**(241,547,024)**	**721,148,640**	**1,032,410,396**	

38 Financial Risk Management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2023:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with the Bank of Mongolia	1,717,584,758	-	-	-	-	**1,717,584,758**
Mandatory cash balances with the Bank of Mongolia	468,929,955	-	-	-	-	**468,929,955**
Reverse sale and repurchase agreement	646,835,976	-	-	-	-	**646,835,976**
Due from other banks	657,959,541	388,664,714	14,801,245	342,228,833	-	**1,403,654,333**
Investments in debt securities	647,957,515	348,407,445	52,540,943	361,673,835	322,512,882	**1,733,092,620**
Investments in equity securities	24,082,823	-	-	-	-	**24,082,823**
Loans and advances to customers	282,947,434	478,566,056	613,929,774	2,124,619,840	1,212,045,601	**4,712,108,705**
Derivative financial assets	202,709	84,031,984	4,772,182	113,380,045	-	**202,386,920**
- inflows	202,709	370,874,014	28,239,806	577,685,345	-	**977,001,874**
- outflows	-	(286,842,030)	(23,467,624)	(464,305,300)	-	**(774,614,954)**
Other financial assets	51,677,977	212,790	949,572	2,862,828	60,974	**55,764,141**
Total Financial Assets	**4,498,178,688**	**1,299,882,989**	**686,993,716**	**2,944,765,381**	**1,534,619,457**	**10,964,440,231**
Liabilities						
Due to other banks	130,991,856	-	-	-	-	**130,991,856**
Customer accounts						
- Current/settlement accounts	607,873,522	227,041,806	600,573,604	464,172,486	2,163,049,861	**4,062,711,279**
- Demand deposits	77,345,607	28,888,717	76,416,768	59,061,139	275,225,680	**516,937,911**
- Term deposits	517,453,008	1,837,676,695	997,170,071	96,863,660	7,821,031	**3,456,984,465**
Other borrowed funds	293,607	411,058,436	112,025,539	859,548,306	28,002,834	**1,410,928,722**
REPO arrangements	502,920,576	26,597,847	163,097,346	19,058,394	-	**711,674,163**
Derivative financial liabilities	127,797	2,685,645	77,496	-	-	**2,890,938**
- inflows	-	(51,926,634)	(11,793,209)	-	-	**(63,719,843)**
- outflows	127,797	54,612,279	11,870,705	-	-	**66,610,781**
Other financial liabilities	182,888,614	351,037	93,782	93,566	-	**183,426,999**
Total Financial Liabilities	**2,019,894,587**	**2,534,300,183**	**1,949,454,606**	**1,498,797,551**	**2,474,099,406**	**10,476,546,333**
Liquidity gap arising from financial instruments	**2,478,284,101**	**(1,234,417,194)**	**(1,262,460,890)**	**1,445,967,830**	**(939,479,949)**	**487,893,898**
Accumulated Net Gap	**2,478,284,101**	**1,243,866,907**	**(18,593,983)**	**1,427,373,847**	**487,893,898**	

38 Financial Risk Management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2022:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with the Bank of Mongolia	1,142,404,090	-	-	-	-	**1,142,404,090**
Mandatory cash balances with the Bank of Mongolia	357,581,959	-	-	-	-	**357,581,959**
Due from other banks	496,299,115	17,514,992	361,694,333	691,454,940	-	**1,566,963,380**
Investments in debt securities	647,154,123	65,886,629	47,296,496	249,126,417	220,787,344	**1,230,251,009**
Investments in equity securities	22,513,491	-	-	-	-	**22,513,491**
Loans and advances to customers	218,684,574	303,469,167	698,194,057	1,493,021,165	984,264,382	**3,697,633,345**
Derivative financial instruments-asset	8,374,137	111,840	124,460,563	303,199,569	-	**436,146,109**
- inflows	37,432,781	21,706,244	235,225,696	382,752,526	-	**677,117,247**
- outflows	(29,058,644)	(21,594,404)	(110,765,133)	(79,552,957)	-	**(240,971,138)**
Other financial assets	26,033,455	160,839	1,553,352	29,419	-	**27,777,065**
Total Financial Assets	**2,919,044,944**	**387,143,467**	**1,233,198,801**	**2,736,831,510**	**1,205,051,726**	**8,481,270,448**
Liabilities						
Due to other banks	52,394,763	-	-	-	-	**52,394,763**
Customer accounts						
- Current accounts	412,668,916	154,132,550	407,713,198	315,114,164	1,468,436,127	**2,758,064,955**
- Demand deposits	63,714,695	23,797,548	62,949,549	48,652,569	226,721,609	**425,835,970**
- Term deposits	102,346,026	705,040,107	1,540,570,978	211,439,831	-	**2,559,396,942**
Other borrowed funds	91,472,274	13,138,570	577,718,827	1,200,816,073	33,166,348	**1,916,312,092**
REPO arrangements	-	95,745,587	97,790,474	17,811,583	-	**211,347,644**
Other financial liabilities	111,977,417	1,490,165	1,576,278	68,430	-	**115,112,290**
Total Financial Liabilities	**834,574,091**	**993,344,527**	**2,688,319,304**	**1,793,902,650**	**1,728,324,084**	**8,038,464,656**
Liquidity gap arising from financial instruments	**2,084,470,853**	**(606,201,060)**	**(1,455,120,503)**	**942,928,860**	**(523,272,358)**	**442,805,792**
Accumulated Net Gap	**2,084,470,853**	**1,478,269,793**	**23,149,290**	**966,078,150**	**442,805,792**	

38 Financial Risk Management (continued)

The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of the portfolio's reliability.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements in respect of guarantees and letters of credit are considerably lower than the amount of the related commitment because the Bank does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The transition changes to systems, processes, risk management and valuation models, as well as managing tax and accounting implications. The Bank continue to monitor market developments in relation to the transition and their impact on the Bank's financial assets and liabilities to ensure that there are no unexpected consequences or disruptions from the transitions.

The Bank is working with its customers and other counterparties, such as international financial institutions to perform a transition of legacy IBOR-based financial instruments. The Bank is also enhancing its IT systems and internal processes to ensure smooth transition from IBOR to alternative benchmark interest rates.

In addition, the Rate Benchmark reform achieved important milestones for the following financial period:

- has successfully transitioned all derivatives referencing LIBORs that ceased publication on 21 December 2021.
- According to the transition, all swap contracts' fair value measurements adjusted through the Risk-free Reference rate method.

39 Contingencies and Commitments

Legal proceedings. In the normal course of business, there are cases in which the Bank receives a claim against it. The Bank has formal controls and policies for managing legal claims. If management decides that there is material impact to the Bank, based on its own estimates and internal professional advice; the Bank makes adjustments to account for any adverse effects which claims may have on its financial statements. As of 31 December 2023, MNT 801 thousand (31 December 2022: MNT 179,771 thousand) provision was booked due to legal claims.

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

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

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

Management believes that its interpretation of the relevant legislation is appropriate and the Bank's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

Compliance with covenants. The Bank is subject to certain covenants related to other borrowed funds obtained under a certain project. As disclosed in Notes 22, there were no breaches of covenants.

Credit related 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.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

39 Contingencies and Commitments (continued)

Compliance issue with Banking Law. In accordance with 36.1 of the Law on Banking amended on 29 January 2021, shares or other share equivalent securities to be held by any party individually or jointly with its related parties shall not exceed more than 20 percent of the total issued shares of all commercial banks. This law requirement is required to be complied within 31 December 2023 in accordance with Article 5 of the Law on Implementation Procedure of Banking Law Amendment. The purpose of this law requirement is intended to reduce the ownership concentration of the single shareholder.

Although efforts have been continuously made, as at 31 December 2023, the above law requirement was not implemented by the Bank as well as other commercial banks in Mongolia due to the reasons explained below.

Based on Resolution A-166 issued by the President of Bank of Mongolia dated on 31 August 2023, a working group with joint representatives from Bank of Mongolia, Financial Regulatory Commission, Deposit Insurance Corporation and Mongolian Banking Association was formed as to propose amendments on Law on Implementation Procedure of Banking Law Amendment considering the internal and external difficulties faced in relation to implementation of the law requirements by the commercial banks in Mongolia. Proposal of legislation draft on Law on Implementation Procedure of Banking Law Amendment was submitted to the Government of Mongolia on 13 December 2023 and the proposal was discussed by the Government of Mongolia 20 December 2023.

In accordance with 40.1.6 of the Law on Legislation, a proposal and conclusion of the Government regarding the legislation draft shall be submitted to the State Great Khural (the "Parliament"). On 7 February 2024, Member of the Parliament of Mongolia and Chairman of the Standing Committee on Ethics and Disciplinary Responsibility submitted the draft legislation to the Parliament of Mongolia.

Based on the official letter A-1/1136 issued by the President of Bank of Mongolia dated on 28 December 2023, the proposal on legislation draft on amendments on Law on Implementation Procedure of Banking Law Amendment includes implementation of the ownership concentration requirements to be postponed until 31 December 2026 considering the impact of COVID-19 in the banking sector, current capacity of Mongolian capital market and current state of investment environment. Bank of Mongolia also expressed its intention to support the above proposal on legislation draft and cooperate with the Parliament.

The management of the Bank expects the above legislation draft to be discussed and approved by the Parliament in 2024. Based on Bank of Mongolia's official letter on 28 December 2023, the management also believe there will be no operational and financial impact to the Bank. In the unlikely event that the Parliament rejects the amendment of the Banking Law of Mongolia, the Bank of Mongolia has the right to take certain measures, as stipulated in 6.1 and 6.2 of Law on Implementation Procedure of Banking Law Amendment, against all banks in relation to the non-compliance with the law requirements. Considering the efforts made by all banks and the support from the side of the regulator and government, the Bank expects the Parliament approval of the extension of the deadline to the Banking Law from end of 2023 to end of 2026 will be made. Given the extension, the Bank will be in compliance with the Banking law through 2024 and 2025, even if the Bank has not achieved the desired 20% limited shareholding structure. The Bank is continuously taking actions to attract potential investors to meet the above law requirement and actively submitting the plan and actions taken to the Bank of Mongolia. Considering the facts and the confirmation from the Management at the time of issuing the financial statements, we do not foresee any direct significant or material risk to the accounting basis of the Bank.

39 Contingencies and Commitments (continued)

However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Financial guarantees issued	67,081,997	66,863,233
Performance guarantees issued	386,870,682	355,360,186
Letters of credit	322,641,372	244,371,440
Undrawn credit lines	569,953,318	284,861,192
Total credit related commitments	**1,346,547,369**	**951,456,051**
Less: Expected credit loss allowance for impairment of credit related commitments	(2,848,492)	(1,447,410)
Total credit related commitments	**1,343,698,877**	**950,008,641**

For the purpose of ECL measurement credit related commitments are included in Stage 1.

Movements in the expected credit loss allowance for credit related commitments to legal entities and individuals are as follows at 31 December 2023:

In thousands of Mongolian Tugriks	**Financial guarantees issued**	**Performance guarantees issued**	**Letters of credit**	**Total**
Expected credit loss allowance at 1 January 2023	365,225	1,039,189	42,996	**1,447,410**
Provision charge/(reversal) during the year	(131,349)	1,415,483	(17,461)	**1,266,673**
Other	-	134,409	-	**134,409**
Expected credit loss allowance at 31 December 2023	**233,876**	**2,589,081**	**25,535**	**2,848,492**

Movements in the expected credit loss allowance for credit related commitments to legal entities and individuals during 2022 are as follows:

In thousands of Mongolian Tugriks	**Financial guarantees issued**	**Performance guarantees issued**	**Letters of credit**	**Total**
Expected credit loss allowance at 1 January 2022	**248,091**	**650,374**	**39,609**	**938,074**
Provision charge/(reversal) during the year	117,134	388,815	3,387	**509,336**
Expected credit loss allowance at 31 December 2022	**365,225**	**1,039,189**	**42,996**	**1,447,410**

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same risk as loans even though they are of a contingent nature. No material losses are anticipated as a result of these transactions, other than those for which provision has been created.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Please refer to Note 4.24 for accounting policy of performance guarantee.

As of 31 December 2023, management concluded that provision for credit related commitments in the amount of MNT 2,848,492 thousands (31 December 2022: MNT 1,447,410 thousands) is necessary, based on all available information using its best estimate of losses incurred and the probability of their occurrence after analysing financial conditions of the Bank's customers.

39 Contingencies and Commitments (continued)

Assets pledged and restricted. Mandatory cash balances with the Bank of Mongolia in the amount of MNT 468,929,955 thousands as of 31 December 2023 (31 December 2022: MNT 357,581,959) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations (Note 8).

Treasury bills of the Bank of Mongolia with nominal amount of MNT 522,400 thousands (31 December 2022: MNT 205,728,000 thousands) and MNT 20,700,000 thousands with maturity of 28 days were collateralised by Repo arrangement (Note 23) and by Project on gold production-2 (Note 22) with Bank of Mongolia, respectively.

Government bonds with nominal amount of MNT 233,976,744 thousands (31 December 2022: MNT 180,152,580 thousands) were collateralised to obtain borrowings from foreign bank. Please see Note 22.

SFC senior bonds classified at FVTPL with nominal amount of MNT 7,737,100 thousands (31 December 2022: nill) were collateralised by Repo arrangement. Please see Note 23

Corporate bonds classified at FVTOCI with nominal amount of MNT 19,110,096 thousands (31 December 2022: MNT 38,372,844 thousands) were collateralised by Repo arrangement. Please see Note 23

USD 200,000 thousands of those borrowings are secured for the lending banks by the collateral of the Bank's current account.

40 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Gross amounts before offsetting in the statement of financial position and related net amounts are given below.

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- Financial assets at fair value through profit or loss	202,386,920	457,415,688
- Financial liabilities at fair value through profit or loss	(2,890,938)	(21,269,579)
Foreign exchange forwards and swaps, net fair value	**199,495,982**	**436,146,109**

40 Derivative Financial Instruments (continued)

In thousands of Mongolian Tugriks	31 December 2023	31 December 2022
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	1,040,721,717	654,520,799
- USD payable on settlement (-)	-	(22,613,278)
- MNT receivable on settlement (+)	-	2,134,889
- MNT payable on settlement (-)	(841,097,938)	(215,163,795)
- Other currencies receivable on settlement (+)	-	20,478,438
- Other currencies receivable on settlement (-)	(127,797)	(3,210,944)
Net fair value of foreign exchange forwards and swaps	**199,495,982**	**436,146,109**

Financial assets of MNT 202,386,920 thousands as at 31 December 2023 (31 December 2022: MNT 436,115,135 thousands) relates to a long-term cross currency interest rate exchange contract with the Bank of Mongolia. The total nominal amount of those long-term cross currency interest exchange is the MNT 829,443,388 thousands as of 31 December 2023 with original maturity range of 2 months to 33 months (31 December 2022: MNT 1,134,331,616 thousands with original maturity range of 12 months to 96 months).

For the year ended 31 December 2023, losses from financial derivative resulted to MNT 230,906,300 thousands (31 December 2022: MNT 226,288,613 thousands), foreign exchange gain of MNT 110,287,310 thousands (31 December 2022: gain of MNT 179,222,000 thousands), net interest expense of MNT 13,192,376 thousands (31 December 2022: MNT 12,340,965 thousands).

41 Fair Value Disclosures

The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. Quoted financial instruments in active markets provide the best evidence of fair value. As no readily available market exists for major part of the Bank's financial instruments, their fair value is based on current economic conditions and the specific risks attributable to the instrument. The estimates presented below are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

41 Fair Value Disclosures (continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2023				31 December 2022			
In thousands of Mongolian Tugriks	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Investments in debt securities at FVTPL	48,237,148	-	260,366,038	**308,603,186**	621,920	-	221,722,770	**222,344,690**
Investments in debt securities at FVTOCI	448,604,411	-	975,885,023	**1,424,489,434**	261,107,415	-	742,100,282	**1,003,207,697**
Investments in equity securities at FVTPL	23,634,110	-	-	**23,634,110**	22,103,523	-	-	**22,103,523**
Investments in equity securities at FVTOCI	-	-	448,713	**448,713**	-	-	409,968	**409,968**
Loan and advances to customers at FVTPL	-	-	401,012,308	**401,012,308**	-	-	437,700,348	**437,700,348**
Repossessed financial assets	-	-	-	**-**	-	-	6,146,252	**6,146,252**
Derivative financial instruments-asset	-	202,386,920	-	**202,386,920**	-	436,146,109	-	**436,146,109**
Precious metals	26,922,637	-	-	**26,922,637**	160,633	-	-	**160,633**
Non-financial assets								
Premises	-	-	99,530,596	**99,530,596**	-	-	102,710,381	**102,710,381**
Investment properties	-	-	6,586,475	**6,586,475**	-	-	10,276,475	**10,276,475**
Total assets recurring fair value measurements	**547,398,306**	**202,386,920**	**1,743,829,153**	**2,493,614,379**	**283,993,491**	**436,146,109**	**1,521,066,476**	**2,241,206,076**
Liabilities at fair value								
Financial liabilities								
Derivative financial instruments	-	(2,890,938)	-	**(2,890,938)**	-	-	-	**-**
Total liabilities recurring fair value measurements	**-**	**(2,890,938)**	**-**	**(2,890,938)**	**-**	**-**	**-**	**-**

41 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

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

In thousands of Mongolian Tugriks	**2023** Fair value	**2022** Fair value	**Valuation technique**	**Inputs used**
Other financial assets				
Financial derivatives	202,386,920	436,146,109	Interest rate parity theory	MNT discount rate based on risk-free rate, country risk premium and currency risk premium, US discount rate based on treasury yield, US leg based on US SOFR, constant and Z spread, MNT leg based on policy rate, or as provided in the corresponding swap agreement.
Total recurring fair value measurements at level 2	**202,386,920**	**436,146,109**		

There were changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2023. Changes in methodology involve different calculation method of MNT and USD leg payments using US Short-term rate to reflect changes in the market more accurately.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2023.

Financial assets

Equity securities, which are classified as Level 1 for fair value measurement purposes, mostly relate to the Bank's investment in a joint stock companies established in Mongolia in the amount of MNT 23,634,110 thousands (31 December 2022: MNT 22,103,523 thousands of investment securities at fair value through profit or loss) are disclosed in Note 11. Companies are listed in the Mongolian Stock exchange and Foreign Stock exchange.

Precious metal, which are mostly consist of the gold bar are classified at Level 1 for fair value measurement purposes in the amount of MNT 26,922,637 thousands (31 December 2022: MNT 160,633 thousands) which was valued at publicly available price announced by the Bank of Mongolia.

Derivative financial instruments, which are classified as level 2 for fair value measurement purposes, in amount of MNT 202,386,920 thousands (31 December 2022: MNT 436,146,109 thousands) are related to unrealized gain from long-term and short-term swaps and are classified as financial assets at FVTPL.

Investments in debt securities at FVTPL, which are classified as level 1 for fair value measurement purposes, in the amount of MNT 48,237,148 thousand (31 December 2022: MNT 621,919 thousands, which were classified as level 1) are related to the Government Bond.

Investments in debt securities at FVTOCI, which are classified as level 1 for fair value measurement purposes, in the amount of MNT 448,604,411 thousand (31 December 2022: MNT 261,107,415 thousands, which were classified as level 1) are related to the Government Bond and Corporate bond.

Investments in debt securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 975,885,023 thousand (31 December 2022: MNT 742,100,282 thousands, which were classified as level 3) are related to treasury bills of Bank of Mongolia.

41 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

Investments in debt securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 260,366,038 thousand (31 December 2022: MNT 221,722,770 thousands, which were classified as level 3) are related to MIK Senior and Junior bonds, and SFC Senior and Junior bonds.

Investments in equity securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 448,713 thousands (31 December 2022: MNT 409,968, which were classified as level 3) are related to unquoted financial investments in corporate. Management applied valuation technique to determine the fair value as at 31 December 2023, which is based on price per net asset of similar company, which is listed in Mongolian Stock Exchange.

If the market price of debt and equity securities, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would increase/(decrease) by MNT 26,036,604 thousands and 44,871 thousands (31 December 2022: MNT 22,172,277 thousands and MNT 40,997 thousands) respectively.

Loans at FVTPL, which are classified at level 3 for fair value measurement purposes, in the amount of MNT 401,012,308 thousands (31 December 2022: MNT 437,700,348 thousands, which were classified as level 3) are related to Mortgage portfolio of loans, SME loan portfolio financed by long term REPO financing by the Bank of Mongolia and corporate loan classified at FVTPL which is a modified instrument that had been previously classified as a derivative financial instrument. The management determined fair value by discounting the future cash inflows using its market interest rate. As those FVTPL loans were under special government programs, market rate was defined as its own interest rate.

If the interest rate would increase/(decrease) by 10%, the fair value of those loans would increase/(decrease) by MNT 40,101,231 thousands (2022: MNT 43,770,035 thousands).

Repossessed financial assets, which are classified as level 3 for fair value measurement purposes, relate to the shares in a company (refer to Note 18) acquired in the process of settlement of overdue loans. Fair value of the shares was determined using fair value of assets and liabilities of the entity, which was determined using market comparable approach and discounted future cash flow approach.

The methods and significant assumptions applied in determining the fair value of premises and investment properties were market comparison method and the valuation was based on comparable market value.

Non-financial assets at 31 December 2023:

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used	Range of inputs (price per sq. m)	Reasonable change	Sensitivity of fair value measurement
Assets at fair value Non-financial assets						
Premises	99,530,596	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	1,818-12,435	10%	9,953,060
Investment properties	6,586,475	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	7,500	10%	658,648
Total recurring fair value measurements at level 3	**106,117,071**					**10,611,708**

41 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

Non-financial assets at 31 December 2022:

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used	Range of inputs (price per sq. m)	Reasonable change	Sensitivity of fair value measurement
Assets at fair value Non-financial assets						
Premises	102,710,381	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	1,820-12,000	10%	10,271,038
Investment properties	10,276,475	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	6,000-8,100	10%	1,027,648
Total recurring fair value measurements at level 3	**112,986,856**					**11,298,686**

The Bank has written down its assets held for sale to fair value less costs to sell. The fair value belongs to level 3 measurements in the fair value hierarchy. The valuation technique and inputs used in the fair value measurement on 31 December 2023.

(b) Non-recurring fair value measurements

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used	Range of inputs (price per sq. m)	Sensitivity of fair value measurement
Assets held for sale	29,101,738	Market comparison method	Market rental prices with appropriate adjustments, discounts/haircuts	266.47-7,393.39	2,910,174

The valuation technique and inputs used in the fair value measurement at 31 December 2022.

In thousands of Mongolian Tugriks	Fair value	Valuation technique	Inputs used	Range of inputs (price per sq. m)	Sensitivity of fair value measurement
Assets held for sale	6,687,575	Market comparison method	Market rental prices with appropriate adjustments, discounts/haircuts	267.95-4,024.43	668,757

(c) Valuation processes for recurring and non-recurring level 3 fair value measurements

Level 3 valuations are reviewed on a yearly basis by the Bank's Asset Management Division with the aid of an external valuator. Management considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the real estate market.

41 Fair Value Disclosures (continued)

(d) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2023 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with the Bank of Mongolia	**92,126,135**	**1,625,458,623**	**-**	**1,717,584,758**
Cash on hand	92,126,135	-	-	92,126,135
Cash and balances with the Bank of Mongolia	-	1,625,458,623	-	1,625,458,623
Mandatory cash balances with the Bank of Mongolia	**-**	**468,929,955**	**-**	**468,929,955**
Due from other banks	**-**	**1,403,654,333**	**-**	**1,403,654,333**
Correspondent accounts with other banks	-	459,510,979	-	459,510,979
Foreign	-	430,661,722	-	430,661,722
Domestic	-	28,849,257	-	28,849,257
Short term placements with other banks	-	210,872,256	-	210,872,256
Domestic	-	108,512,806	-	108,512,806
Foreign	-	102,359,450	-	102,359,450
Placements with other banks with original maturities of more than three months	-	733,271,098	-	733,271,098
Loans and advances to customers	-	-	**4,448,958,636**	**4,311,096,397**
Corporate loans	-	-	1,352,829,304	1,296,769,557
Loans to small and medium business	-	-	1,270,012,090	1,201,262,343
Consumer loans to individuals	-	-	1,199,130,467	1,162,252,494
Mortgage loans to individuals	-	-	626,986,775	650,812,003
Other financial assets	-	28,841,504	-	**28,841,504**
Total financial assets carried at amortised cost	**92,126,135**	**3,526,884,415**	**4,448,958,636**	**7,930,106,947**

41 Fair Value Disclosures (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2022 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with the Bank of Mongolia	**101,014,386**	**1,041,389,704**	-	**1,142,404,090**
Cash on hand	101,014,386		-	101,014,386
Cash and balances with the Bank of Mongolia	-	1,041,389,704	-	1,041,389,704
Mandatory cash balances with the Bank of Mongolia	-	**357,581,959**	-	**357,581,959**
Due from other banks	-	**1,566,963,380**	-	**1,566,963,380**
Correspondent accounts with other banks	-	405,662,564	-	**405,662,564**
Foreign	-	387,577,033	-	387,577,033
Domestic	-	18,085,531	-	18,085,531
Short term placements with other banks	-	80,193,710	-	80,193,710
Domestic	-	40,384,037	-	40,384,037
Foreign	-	39,809,673	-	39,809,673
Placements with other banks with original maturities of more than three months	-	1,081,107,106	-	1,081,107,106
Loans and advances to customers	-	-	**3,361,520,531**	**3,259,932,997**
Corporate loans	-	-	1,101,436,336	1,059,763,701
Loans to small and medium business	-	-	955,414,431	912,814,524
Consumer loans to individuals	-	-	866,496,055	833,565,900
Mortgage loans to individuals	-	-	438,173,709	453,788,872
Debt securities at AC	-	**4,698,622**	-	**4,698,622**
Other financial assets	-	**27,616,432**	-	**27,616,432**
Total financial assets carried at amortised cost	**101,014,386**	**2,998,250,097**	**3,361,520,531**	**6,359,197,480**

41 Fair Value Disclosures (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2023 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	**-**	**130,991,856**	**-**	**130,991,856**
Short-term placements of other banks	-	130,991,856	-	**130,991,856**
Long-term placement of other banks	-	-	-	**-**
REPO Arrangements	**-**	**711,674,163**	**-**	**711,674,163**
Sale and repurchase agreements with other banks	-	711,674,163	-	**711,674,163**
Customer Accounts				**-**
State and public organisations	**-**	**1,308,103,110**	**-**	**1,309,557,722**
- Current/settlement accounts	-	1,237,585,943	-	1,237,585,943
- Demand deposits	-	-	-	-
- Term deposits	-	70,517,167	-	71,971,779
Legal entities	**-**	**3,124,802,105**	**-**	**3,131,324,697**
- Current/settlement accounts	-	2,166,380,896	-	2,166,380,896
- Demand deposits	-	-	-	-
- Term deposits	-	958,421,209	-	964,943,801
Individuals	**-**	**3,479,835,940**	**-**	**3,512,056,303**
- Current/settlement accounts	-	619,272,411	-	619,272,411
- Demand deposits	-	493,189,978	-	516,937,911
- Term deposits	-	2,367,373,550	-	2,375,845,981
Other	**-**	**83,030,526**	**-**	**83,694,933**
- Current/settlement accounts	-	39,472,029	-	39,472,029
- Demand deposits	-	-	-	-
- Term deposits	-	43,558,497	-	44,222,904
Other borrowed funds	**-**	**1,410,928,722**	**-**	**1,410,928,722**
Provision for credit related commitments	**-**	**-**	**2,848,492**	**2,848,492**
Lease liabilities	**-**	**17,390,429**	**-**	**17,390,429**
Other financial liabilities	**-**	**180,578,507**	**-**	**180,578,507**
			-	
Total financial liabilities carried at amortised cost	**-**	**10,447,335,358**	**2,848,492**	**10,491,045,824**

41 Fair Value Disclosures (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2022 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	-	**52,394,763**	**-**	**52,394,763**
Short-term placements of other banks	-	52,394,763	-	52,394,763
Long-term placement of other banks	-	-	-	-
REPO Arrangements	-	**211,347,644**	**-**	**211,347,644**
Sale and repurchase agreements with other banks	-	211,347,644	-	211,347,644
Customer Accounts				-
State and public organisations	-	**520,090,000**	**-**	**522,698,005**
- Current/settlement accounts	-	481,916,068	-	481,916,068
- Demand deposits	-	3,046,468	-	3,046,468
- Term deposits	-	35,127,464	-	37,735,469
Legal entities	-	**2,047,304,222**	**-**	**2,111,440,787**
- Current/settlement accounts	-	1,653,140,375	-	1,653,140,375
- Demand deposits	-	5,636,882	-	5,636,882
- Term deposits	-	388,526,965	-	452,663,530
Individuals	-	**3,035,877,103**	**-**	**3,048,396,232**
- Current/settlement accounts	-	584,816,587	-	584,816,587
- Demand deposits	-	417,143,204	-	417,143,204
- Term deposits	-	2,033,917,312	-	2,046,436,441
Other	-	**59,944,579**	**-**	**60,762,843**
- Current/settlement accounts	-	38,191,925	-	38,191,925
- Demand deposits	-	9,416	-	9,416
- Term deposits	-	21,743,238	-	22,561,502
Other borrowed funds	-	**1,916,312,092**	**-**	**1,916,312,092**
Provision for credit related commit-ments	-	**1,447,410**	**-**	**1,447,410**
Other financial liabilities	-	**113,664,880**	**-**	**113,664,880**
Total financial liabilities carried at amortised cost	**-**	**7,958,382,693**	**-**	**8,038,464,656**

42 Presentation of Financial Instruments by Measurement Category

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2023:

In thousands of Mongolian Tugriks	Amortised cost	FVTPL	FVTOCI (with recycling)	FVTOCI (no recycling)	Total
Financial assets					
Cash and balances with the Bank of Mongolia	**1,717,584,758**	**-**	**-**	**-**	**1,717,584,758**
Cash on hand	92,126,135	-	-	-	**92,126,135**
Cash and balances with the Bank of Mongolia	1,625,458,623	-	-	-	**1,625,458,623**
Mandatory cash balances with the Bank of Mongolia	**468,929,955**	**-**	**-**	**-**	**468,929,955**
Reverse sale and repurchase agreement	**646,835,976**	**-**	**-**	**-**	**646,835,976**
Investments in debt securities	**-**	**308,603,186**	**1,424,489,434**	**-**	**1,733,092,620**
Investments in equity securities	**-**	**23,634,110**	**-**	**448,713**	**24,082,823**
Due from other banks	**1,403,654,333**	**-**	**-**	**-**	**1,403,654,333**
Correspondent accounts with other banks					
Foreign	430,661,722	-	-	-	**430,661,722**
Domestic	28,849,257	-	-	-	**28,849,257**
Short term placements with other banks					
Foreign	108,512,806	-	-	-	**108,512,806**
Domestic	102,359,450	-	-	-	**102,359,450**
Placements with other banks with original maturities of more than three months	733,271,098	-	-	-	**733,271,098**
Loans and advances to customers	**4,311,096,397**	**401,012,308**	**-**	**-**	**4,712,108,705**
Corporate loans	1,296,769,557	-	-	-	**1,296,769,557**
Loans to small and medium business	1,201,262,343	-	-	-	**1,201,262,343**
Consumer loans to individuals	1,162,252,494	-	-	-	**1,162,252,494**
Mortgage loans to individuals	650,812,003	-	-	-	**650,812,003**
Corporate loan classified FVTPL	-	13,923,375	-	-	**13,923,375**
SME loan classified FVTPL	-	5,460,766	-	-	**5,460,766**
Mortgage loans to be sold to MIK with recourse	-	381,628,167	-	-	**381,628,167**
Derivative financial instruments-asset	**-**	**202,386,920**	**-**	**-**	**202,386,920**
Other financial assets	**28,841,504**	**26,922,637**	**-**	**-**	**55,764,141**
Precious metals	-	26,922,637	-	-	**26,922,637**
Receivable from companies	8,287,581	-	-	-	**8,287,581**
Receivable from individuals	2,870,192	-	-	-	**2,870,192**
Receivables on cash and settlements services	21,742,284	-	-	-	**21,742,284**
Other financial assets	2,207,247	-	-	-	**2,207,247**
Less: Expected credit loss allowance	(6,265,800)	-	-	-	**(6,265,800)**
Total Financial Assets	**8,576,942,923**	**962,559,161**	**1,424,489,434**	**448,713**	**10,964,440,231**

42 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2022:

In thousands of Mongolian Tugriks	Amortised cost	FVTPL	FVTOCI (with recycling)	FVTOCI (no recycling)	Total
Financial assets					
Cash and balances with the Bank of Mongolia	**1,142,404,090**	**-**	**-**	**-**	**1,142,404,090**
Cash on hand	101,014,386	-	-	-	**101,014,386**
Cash and balances with the Bank of Mongolia	1,041,389,704	-	-	-	**1,041,389,704**
Mandatory cash balances with the Bank of Mongolia	**357,581,959**	**-**	**-**	**-**	**357,581,959**
Investments in debt securities	**4,698,622**	**222,344,690**	**1,003,207,697**	**-**	**1,230,251,009**
Investments in equity securities	**-**	**22,103,523**	**-**	**409,968**	**22,513,491**
Due from other banks	**1,566,963,380**	**-**	**-**	**-**	**1,566,963,380**
Correspondent accounts with other banks:					
Foreign	387,577,033	-	-	**-**	**387,577,033**
Domestic	18,085,531	-	-	**-**	**18,085,531**
Short term placements with other banks					
Domestic	40,384,037	-	-	**-**	**40,384,037**
Foreign	39,809,673	-	-	**-**	**39,809,673**
Placements with other banks with original maturities of more than three months	1,081,107,106	-	-	**-**	**1,081,107,106**
Loans and advances to customers	**3,259,932,997**	**437,700,348**	**-**	**-**	**3,697,633,345**
Corporate loans	1,059,763,701	-	-	**-**	**1,059,763,701**
Loans to small and medium business	912,814,524	-	-	**-**	**912,814,524**
Consumer loans to individuals	833,565,900	-	-	**-**	**833,565,900**
Mortgage loans to individuals	453,788,872	-	-	**-**	**453,788,872**
Corporate loan classified FVTPL	-	25,910,147	**-**	**-**	**25,910,147**
SME loan classified FVTPL	-	17,260,939	-	**-**	**17,260,939**
Mortgage loans to be sold to MIK with recourse	-	394,529,262	-	**-**	**394,529,262**
Derivative financial instruments-asset	**-**	**436,146,109**	**-**	**-**	**436,146,109**
Repossessed financial assets	**-**	**6,146,252**	**-**	**-**	**6,146,252**
Other financial assets	**27,616,432**	**160,633**	**-**	**-**	**27,777,064**
Precious metals	-	160,633	**-**	**-**	**160,633**
Receivable from companies	5,161,812	-	-	-	**5,161,812**
Receivable from individuals	2,334,578	-	-	-	**2,334,578**
Receivables on cash and settlements services	22,199,583	-	-	-	**22,199,583**
Other financial assets	2,649,866	-	-	-	**2,649,866**
Less: Expected credit loss allowance	(4,729,407)	-	-	-	**(4,729,407)**
Total Financial Assets	**6,359,197,480**	**1,124,601,555**	**1,003,207,697**	**409,968**	**8,487,416,700**

As of 31 December 2023, and 31 December 2022, all of the Bank’s financial liabilities were carried at AC except for derivative financial liabilities. Derivative financial liabilities were measured at FVTPL.

43 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely the legal form.

In the normal course of business, the Bank and the Bank enters into transactions with its major share-holders, directors and other related parties. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. According to the Bank’s policy the terms of related party transactions are equivalent to those that prevail in arm’s length transactions.

Related party categories are as follows:

Immediate parent company	Golomt Financial Group LLC is the main shareholder of the Bank, refer to Note 1.
Entities under common control	Entities under common control are companies within Golomt Financial Group LLC and other companies the ultimate owner has control or significant influence.
Directors and key management personnel	The Board of Directors and executive managers of the Bank.

For information on the Bank’s immediate and ultimate parent company, as well as ultimate controlling party as of 31 December 2023 and 31 December 2022, refer to Note 1.

43 Related Party Transactions (continued)

On 31 December 2023, the outstanding balances the Bank's related parties were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Other related parties**	**Total**
Gross amount of loans and advances to customers (contractual interest rate 0% - 22%)	3,863,988	-	76,509,102	36,962,089	**117,335,179**
Other assets	-	-	106,340	-	**106,340**
Customer accounts (contractual interest rate 0% - 15%)	4,824,272	3,424,427	127,570,942	1,826,471	**137,646,112**

On 31 December 2022, the outstanding balances with the Bank's related parties were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Other related parties**	**Total**
Net amount of loans and advances to customers (contractual interest rate 0% - 16.4%)	4,612,135	-	31,198,477	15,046,114	**50,856,726**
Other assets	-	-	51,235	-	**51,235**
Customer accounts (contractual interest rate 0% - 12.5%)	3,274,463	7,601,797	78,937,512	831,273	**90,645,045**

43 Related Party Transactions (continued)

Movement in the loans and advances to the Bank's related party at 31 December 2023 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Other related parties**	**Total**
Contractual interest rate	**6% - 22%**	**-**	**0% - 17%**	**0%-16%**	
Loans to customers					
Loans to customers as at 1 January 2023	**4,612,135**	**-**	**31,198,477**	**15,046,114**	**50,856,726**
Loans to customers issued during the year	1,385,569	-	76,332,229	35,700,000	**113,417,798**
Loans to customers repaid during the year	(2,151,829)	-	(31,084,725)	(14,819,962)	**(48,056,516)**
Accrued interest as at 31 December 2023	18,746	-	378,885	1,125,485	**1,523,116**
Less: Credit loss allowance	(633)	-	(137,674)	(89,548)	**(227,855)**
Losses on initial recognition of loans at rates below market	-	-	-	-	**-**
Exchange difference	-	-	(178,090)	-	**(178,090)**
Loans to customers as at 31 December 2023	**3,863,988**	**-**	**76,509,102**	**36,962,089**	**117,335,179**

Movements in the loans and advances to the Bank's related party at 31 December 2022 were as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Other related parties**	**Total**
Contractual interest rate	**6% - 16.4%**	**3%**	**0% - 16.4%**	**14.8%**	
Loans to customers					
Loans to customers as at 1 January 2022	**2,933,750**	**8,051,638**	**6,292,249**	**-**	**17,277,637**
Loans to customers issued during the year	4,873,959	-	32,070,000	15,028,304	**51,972,263**
Loans to customers repaid during the year	(3,222,399)	(8,051,638)	(7,095,574)	-	**(18,369,611)**
Accrued interest as at 31 December 2022	28,352	-	223,793	163,664	**415,809**
Less: Credit loss allowance	(1,527)	-	(291,991)	(145,854)	**(439,372)**
Loans to customers as at 31 December 2022	**4,612,135**	**-**	**31,198,477**	**15,046,114**	**50,856,726**

Loans issued to key management are issued at preferential rates, as it is the case with loans issued to the Bank's employees (refer to Note 12). The terms offered to key management are not substantially different from those offered to other employees.

43 Related Party Transactions (continued)

As of 31 December 2023, the customer accounts balances and transactions with the Bank's related parties are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Other related parties**	**Total**
Contractual interest rate	**0% - 13%**	**0% - 8%**	**0% - 15%**	**0% - 5%**	
Customer accounts					
Customer accounts as at 01 January 2023	**3,274,463**	**7,601,797**	**78,937,512**	**831,273**	**90,645,045**
Customer accounts received during the year	47,418,266	103,357,673	4,427,957,760	89,101,068	**4,667,834,767**
Customer accounts repaid during the year	(45,902,567)	(107,647,906)	(4,378,017,267)	(88,098,513)	**(4,619,666,253)**
Accrued interest as at 31 December 2023	41,487	12,140	674,212	-	**727,839**
Exchange difference	(7,377)	100,723	(1,981,275)	(7,357)	**(1,895,286)**
Customer accounts as at 31 December 2023	**4,824,272**	**3,424,427**	**127,570,942**	**1,826,471**	**137,646,112**

The customer account balances at the year-end and transactions with the Bank's related parties for 2022 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Other related parties**	**Total**
Contractual interest rate	**0% - 12.5%**	**0%**	**0% - 12.4%**	**0%**	
Customer accounts					
Customer accounts as at 01 January 2022	**3,545,762**	**9,171,115**	**41,929,777**	**-**	**54,646,654**
Customer accounts received during the year	59,135,550	672,296,035	3,924,098,933	19,560,970	**4,675,091,488**
Customer accounts repaid during the year	(59,770,833)	(675,040,108)	(3,890,868,541)	(18,803,395)	**(4,644,482,877)**
Accrued interest as at 31 December 2021	30,598	-	314,794	-	**345,392**
Exchange difference	333,386	1,174,755	3,462,549	73,698	**5,044,388**
Customer accounts as at 31 December 2022	**3,274,463**	**7,601,797**	**78,937,512**	**831,273**	**90,645,045**

43 Related Party Transactions (continued)

The income and expense items with the Bank's related parties as of 31 December 2023 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Other related parties**	**Total**
Interest income	365,505	-	5,611,573	1,780,142	**7,757,220**
Interest expense	99,424	22,254	1,252,445	241	**1,374,364**
Fee and commission income	208	15,704	204,562	292	**220,766**
Dividend paid	21,280	31,212,026	4,580,530	**-**	**35,813,836**

The income and expense items with the Bank's related parties for the year ended 31 December 2022 are as follows:

In thousands of Mongolian Tugriks	**Directors and key management personnel**	**Immediate parent company**	**Entities under common control**	**Other related parties**	**Total**
Interest income	387,718	-	1,358,499	657,890	**2,404,107**
Interest expense	45,109	-	669,336	-	**714,445**
Fee and commission income	12,782	42,919	228,425	657	**284,783**
Dividend paid	-	-	555,406	-	**555,406**
Equity cost	-	7,866,692	-	-	**7,866,692**
Consulting service received	-	7,551,077	-	-	**7,551,077**

The outstanding balance of the guarantee and letter of credit issued for the Bank's related parties for the year ended 31 December 2023 and 31 December 2022 is as follows:

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Guarantee		
Credit related commitment as at 01 January	**249,715,787**	**80,877,380**
Guarantees issued / exchange revaluation	119,551,645	151,703
Guarantee closed	(249,689,588)	(290,170)
Export letters of credit issued	90,755,720	168,976,874
Undrawn credit lines	5,072,475	-
Total credit related commitments	**215,406,039**	**249,715,787**
Less: provision for impairment of credit related commitments	(73)	-
Total credit related commitments	**215,405,966**	**249,715,787**

The Bank's Board of Directors and key management compensation is presented below:

In thousands of Mongolian Tugriks	**31 December 2023**	**31 December 2022**
Salaries	5,047,027	3,928,079
Bonuses	3,162,700	1,144,987
Social security contributions	1,000,875	617,411
Share-based payment	-	104,413
Total	**9,210,602**	**5,794,890**

Directors and key management personnel mainly represent members of the Bank's Board of Directors and Executive Board. Other related parties are mostly represented by companies controlled by the Bank's major shareholders and the Bank.

44 Share-based payments

During the period ended 31 December 2023, the Bank had share-based payment arrangements with directors and selected employees. The details of the arrangements are described below:

Arrangement	Share appreciation rights	Share options granted to key executives
Nature of the arrangement	Share appreciation rights	Grant of share options
Granted to	Selected employees	Directors
Date of grant	3/3/2022	3/3/2022
Number of instruments granted	2,265,632	283,326
Exercise price	1,000	1,000
Share price at the date of grant	MNT	MNT
Contractual life (years)	1	1
Vesting conditions	-	-
Settlement	Shares	Shares
Expected option life at grant date (years)	1	1
Expected departures (grant date)	10.8% evenly over 1 year	10.8% evenly over 1 year
Expected outcome of meeting performance criteria (at the grant date)	753,262,458	94,198,369
Fair value per granted instrument determined at grant date	MNT	MNT
Valuation model	Black Scholes Model	Black Scholes Model

The Bank granted 2,548,958 share options on 3 March 2022 to both executives and other employees at all levels with more than 3 years of service at the date of grant. The exercise price of the option was MNT 1,000. The contractual life of each option granted is 1 year. There are no cash settlement alternatives.

The option pricing has been calculated using the Black Scholes Model based on valuation of the Bank performed by external valuation experts.

The related expense has been recognised for employee services received during the year is shown in the following table:

In thousands of Mongolian Tugriks	2023	2022
Expense arising from equity-settled		
Share-based option transactions	-	847,461
Total expense after deferred tax	**-**	**635,596**

	2023		*2022*	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at the beginning of the year	2,299,602	1,000	-	-
Granted during the year	-	-	2,548,958	1,000
Expired during the year	(1,465,230)	1,000	(249,356)	1,000
Exercised during the year	(834,372)	1,000	-	-
Outstanding at the end of the year	-	1,000	**2,299,602**	**1,000**

Share-based payments comprises the fair value of options and performance share rights recognised as an expense. Upon exercise of options or performance share rights, any proceeds received are credited to share capital.

45 Event after the End of the Reporting period

Dividend declared. Pursuant to Article 46.1 of the Company Law of Mongolia, a decision was adopted during an extraordinary Board of Directors meeting of the Bank on February 14, 2024 to distribute MNT 72,779,157.72 thousand (MNT 90 per share) to the shareholders from retained earnings. This is not recognised in the financial statements as of 31 December 2023.

Subsequent event. In order to set the price of fuel high, Russia has restricted its supply of fuel to many countries and banned the export of fuel. As a result, there is a risk that the price of transportation will rise and inflation will surge again.

46 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.

47 Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
ALCO	The Asset and Liability Committee
ARDL	Autoregressive Distributed Lag
BOM	Bank of Mongolia
DBM	Development Bank of Mongolia
CCF	Credit Conversion Factor
EAD	Exposure at default
ECL	Expected Credit Loss
EIR	Effective interest rate
ESG	Environmental, Social and Governance
FRC	Financial Regulatory Commission of Mongolia
FVTOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign exchange
IFRS	International Financial Reporting Standard
LGD	Loss given default
L&R	Loans and Receivables
MIK	Mongolian Mortgage Corporation
MNT	Mongolian Tugriks
MNCCI	Manufacturing and Processing of Leather Products
OCI	Other Comprehensive Income
PD	Probability of Default
RMBS	Residential mortgage-backed securities
SICR	Significant Increase in Credit Risk
SME	Small and Medium-sized Enterprises
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest
VaR	Value at risk