XACBANK JSC
(Incorporated in Mongolia)

Audited Financial Statements
31 December 2023

XACBANK JSC

Financial statements for the year ended 31 December 2023

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Corporate information

REGISTERED ADDRESS:	XacBank Building Prime Minister Amar's Street, Sukhbaatar District, Khoroo 8 Post Branch # 46, P.O Box 721, Ulaanbaatar 14200 Mongolia
BOARD OF DIRECTORS:	Mr. Sanjay Gupta Mr. Tsevegjav Gumenjav Ms. Tselmuun Nyamtaishir Mr. Andrzej Witak Mr. Michael Madden Mr. Ulambayar Bayansan Mr. Albertus Bruggink Mr. Niraj Vedwa Mr. Yves Jacquot Ms. Suzannah Herring Carr Ms. Amy Choi(appointed as of 27 April 2023) Mr. Erik Versavel (resigned as of 12 June 2023)
CORPORATE SECRETARY:	Ms. Munkhtselmeg Nyamsuren
AUDITORS	Ernst & Young Mongolia Audit LLC Certified Public Accountants

XACBANK JSC

Statement by executives

We, Tsevegjav Gumenjav being Chief Executive Officer of XacBank JSC (the "Bank") and Erdenebayar Ganzorig being Chief Financial Officer primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements set out on pages 10 to 90 give a true and fair view of the financial position of the Bank as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

TSEVEGJAV GUMENJAV
(Chief Executive Officer)

ERDENEBAYAR GANZORIG
(Chief Financial Officer)

Ulaanbaatar, Mongolia
Date: 15 March 2024

EY
Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of XacBank JSC

Opinion

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"s) as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matters (Cont'd.)

Key audit matter	How our audit addressed the key audit matter
Allowance for loan losses	
The impairment of loans and advances to customers at amortised cost is estimated by the Bank's management through the application of judgement and use of highly subjective assumptions. Due to significance of loans and advances to customers at amortised cost, representing around 53% of the Bank's total assets as at 31 December 2023, and the related estimation uncertainty we considered impairment of loans and advances to customers as a key audit matter. The impairment method is based on a forward looking Expected Credit Loss ("ECL") approach. Elements of the ECL model requires significant estimates and assumptions, including: • Staging of financial assets; • Development of ECL models and the choice of inputs, including probability of default ("PD") and loss given default ("LGD"); • Determination of the Exposure at Default ("EAD"), including the credit conversion factor for the undrawn loan commitments; • Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model; and • Calculation of allowance for impairment losses of individually assessed loans which are based on various assumptions and factors in determining the expected future cash flows. Relevant disclosures of the accounting policy and critical accounting estimates and judgements are included in Notes 2.4 and 2.2 to the financial statements, respectively. Other relevant disclosures of loans and advances to the customers and related credit risk management are included in Notes 9, 16 and 31.2 to the financial statements, respectively.	For assessment of impairment allowance of loans and advances to customers as of 31 December 2023, our audit procedures included the assessment of design and operating effectiveness of controls over the approval, recording and monitoring of ECL, and evaluating the methodologies, inputs and assumptions used by the Bank in its ECL model in calculation of impairment of loans and advances to customers. In evaluating the methodologies, we obtained an understanding of the Bank's ECL model and management's basis for methodologies and assumptions applied and assessed the reasonableness of the model and compared to industry practices. We also considered the reasonableness of the assumptions applied, including the basis for staging classification, the appropriateness of determination of PD, LGD and EAD, and the forward-looking macroeconomic variables incorporated in the model. In testing the appropriateness of the stage classifications, we have tested loan overdue information, credit ratings assigned to the counterparties, where applicable, at initial recognition and as at the reporting date. We have also tested the completeness of the ageing report by agreeing the amounts in the ageing report to the financial records and tested the adequacy of the ageing information based on a random sampling selection basis by verifying the information against other supporting documents. We compared the key inputs to the ECL model to the Bank's internal available historical data, externally available industry, financial and economic data. Our testing included the followings: • Tested the accuracy of internal and external data applied for the calculation of historical PD and LGD on a random selection basis; • Checked the macroeconomic parameters to external data sources where available; • Checked the appropriateness of the EAD applied, including the assumptions of the credit conversion factors; and

INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of XacBank JSC

Key Audit Matters (Cont'd.)

Key audit matter	How our audit addressed the key audit matter
Allowance for loan losses	
	• For a sample of individually assessed loans subject to individual impairment assessment, we reviewed the Bank's assumptions on the expected future cash flows, including assumptions in respect of the realizable value of collateral. We also considered the consistency of judgement applied in the key inputs to the ECL model. We assessed the adequacy of the related disclosure in the notes to the financial statements.

Other Information included in the Annual Report

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting 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.

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 have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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INDEPENDENT AUDITOR'S REPORT (CONT'D.)

To the shareholders of XacBank JSC

Other Matter

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

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

ЭРНСТ ЭНД ЯНГ МОНГОЛИЯ АУДИТ ХХК

Signed by
Khabylkhairat Bulanbai
Director

Approved by
Adrian Chu
Partner

Ulaanbaatar, Mongolia
Date: 15 March 2024

GLOSSARY OF ABBREVIATION

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

XACBANK JSC

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

	Notes	2023 MNT'000	2022 MNT'000
Interest and similar income from financial assets at AC	**4.1**	526,401,210	362,440,045
Interest and similar income from financial instruments at FVTPL	**4.2**	12,159,064	14,218,509
Interest and similar expense	**4.3**	(278,569,871)	(156,331,816)
Net interest income	**4**	**259,990,403**	**220,326,738**
Fees and commission income	**5**	36,904,130	30,701,660
Fees and commission expenses	**5**	(13,509,402)	(11,288,762)
Net fees and commission income	**5**	**23,394,728**	**19,412,898**
Net trading income	**6**	13,612,534	16,983,711
Net income from other financial instruments at FVTPL	**7**	5,376,193	3,349,898
Net other operating income	**8**	4,777,551	3,597,709
Total operating income		**307,151,409**	**263,670,954**
Net credit loss reversal/(expense)	**9**	8,118,712	(9,153,357)
Net operating income		**315,270,121**	**254,517,597**
Operating expenses	**10**	(125,711,392)	(109,334,959)
Amortisation of deferred grants	**22**	1,129,888	1,506,637
Profit before tax		**190,688,617**	**146,689,275**
Income tax expense	**11.1**	(48,629,972)	(40,850,689)
Profit for the year		**142,058,645**	**105,838,586**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Movement in investment revaluation reserve, net of tax		277,438	854,230
Other comprehensive income for the year, net of tax		**277,438**	**854,230**
Total comprehensive income for the year		**142,336,083**	**106,692,816**
Earnings per share (MNT):			
Basic earnings per share	**12**	138.05	105.84
Diluted earnings per share	**12**	138.05	105.84

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

XACBANK JSC

Statement of financial position

As at 31 December 2023

	Notes	2023 MNT'000	2022 MNT'000
ASSETS			
Cash and balances with BoM	**13.1**	358,359,279	431,341,650
Mandatory cash balances with BoM	**13.2**	239,378,375	255,682,837
Financial instruments at FVTPL			
Derivative financial instruments	**14.2**	56,800,918	107,798,730
Financial instruments	**14.1**	110,309,146	83,897,165
Loans and advances to customers	**14.1**	93,116,520	102,764,818
Financial assets at FVTOCI			
Equity instruments	**15**	5,052,206	4,682,289
Financial assets at amortised cost			
Due from banks	**16.1**	393,769,064	282,232,458
Reverse repurchase agreements	**16.2**	99,740,669	-
Debt instruments	**16.3**	960,070,624	596,387,687
Loans and advances to customers	**16.4**	2,627,234,410	1,900,052,627
Other assets	**17**	71,277,148	71,527,286
Properties held for sale	**18**	1,387,250	2,063,167
Property, equipment and right-of-use assets	**19**	75,388,849	68,221,257
Intangible assets	**20**	18,667,114	18,895,588
Deferred tax assets	**11.2**	8,870,069	5,232,744
TOTAL ASSETS		**5,119,421,641**	**3,930,780,303**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial instruments at FVTPL			
Derivative financial instruments	**14.2**	14,332,115	1,639,595
Financial liabilities at amortised cost			
Repurchase agreements	**21.1**	149,611,113	-
Due to banks	**21.2**	36,937,419	51,866,980
Due to customers	**21.3**	2,876,117,299	2,438,619,569
Borrowed funds	**21.4**	1,238,768,595	857,363,227
Deferred grants	**22**	12,564,957	7,970,706
Lease liabilities	**23**	7,675,609	5,310,092
Other liabilities	**24**	131,592,516	68,482,406
Income tax payable	**11.1**	29,759,280	23,840,068
TOTAL LIABILITIES		**4,497,358,903**	**3,455,092,643**
EQUITY			
Ordinary shares	**25**	105,270,000	100,000,000
Share premium	**25**	30,586,768	1,817,773
Reserves	**26**	86,418,906	95,708,103
Retained earnings		399,787,064	278,161,784
TOTAL EQUITY		**622,062,738**	**475,687,660**
TOTAL LIABILITIES AND EQUITY		**5,119,421,641**	**3,930,780,303**

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

XACBANK JSC

Statement of changes in equity

For the year ended 31 December 2023

	Ordinary shares MNT'000 (Note 25)	Share premium MNT'000 (Note 25)	Reserves MNT'000 (Note 26)	Retained earnings MNT'000	Total equity MNT'000
At 1 January 2023	**100,000,000**	**1,817,773**	**95,708,103**	**278,161,784**	**475,687,660**
Profit for the year	-	-	-	142,058,645	142,058,645
Other comprehensive income	-	-	277,438	-	277,438
Total comprehensive income	**-**	**-**	**277,438**	**142,058,645**	**142,336,083**
Share issue	5,270,000	30,407,900	-	-	35,677,900
Transaction costs related to issue of share capital	-	(1,638,905)	-	-	(1,638,905)
Cash dividends**	-	-	-	(30,000,000)	(30,000,000)
Transfer to/(from) regulatory reserve*	-	-	(9,566,635)	9,566,635	-
At 31 December 2023	**105,270,000**	**30,586,768**	**86,418,906**	**399,787,064**	**622,062,738**
At 1 January 2022	**100,000,000**	**1,817,773**	**84,602,413**	**197,574,658**	**383,994,844**
Profit for the year	-	-	-	105,838,586	105,838,586
Other comprehensive income	-	-	854,230	-	854,230
Total comprehensive income	**-**	**-**	**854,230**	**105,838,586**	**106,692,816**
Cash dividends	-	-	-	(15,000,000)	(15,000,000)
Transfer to/(from) regulatory reserve*	-	-	10,251,460	(10,251,460)	-
At 31 December 2022	**100,000,000**	**1,817,773**	**95,708,103**	**278,161,784**	**475,687,660**

* Reserves include the regulatory reserve that is set up in compliance with BoM requirements and is distributable to Shareholders of the Bank subject to BoM's approval (Note 26).

** On 27 April 2023, the Shareholders of the Bank has resolved to distribute a dividend of MNT 30 billion to its sole shareholder, Tenger Financial Group LLC. The dividend disbursement was approved by BoM and was distributed by the Bank on 17 May 2023.

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

XACBANK JSC

Statement of cash flows

For the year ended 31 December 2023

	Notes	2023 MNT'000	2022 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		190,688,617	146,689,275
Adjustments for:			
Loss on disposal of property and equipment	**8**	18,867	4,564
Loss on disposal of foreclosed properties	**8**	3,155,286	419,419
Gain on disposal of property held for sale	**8, 18**	(410,149)	(316,337)
Unrealised foreign exchange (gain)/loss	**8**	(62,322,489)	57,154,258
Changes in fair value of financial derivatives	**8**	63,690,332	(57,307,075)
Net credit loss (reversal)/expense	**9**	(8,118,712)	6,577,134
Modification loss from financial assets at AC	**9**	-	3,107,879
Modification gain from borrowed funds	**9**	-	(531,656)
Fair value changes in financial instruments measured at FVTPL	**6, 7**	328,361	1,344,771
Gain on disposal of equity instruments	**8**	-	(106,153)
Depreciation of property and equipment	**10**	7,216,395	6,285,015
Depreciation of right-of-use assets	**10**	4,183,069	3,809,293
Amortisation of intangible assets	**10**	2,930,414	1,952,099
Property and equipment written off	**10**	206,848	89,955
Intangible assets written off	**10**	-	114,070
Reversal of impairment loss on foreclosed properties	**8**	(6,939,062)	(1,126,650)
Amortisation of deferred grants	**22**	(1,129,888)	(1,506,637)
Interest income from financial assets measured at AC	**4.1**	(526,401,210)	(362,440,045)
Interest income from financial instruments measured at FVTPL	**4.2, 6, 7**	(21,592,850)	(20,890,312)
Interest expense	**4.3**	278,569,871	156,331,816
Interest received		428,670,337	305,237,065
Interest paid		(178,052,611)	(115,139,635)
Operating cash flows before operating assets and liabilities		**174,691,426**	**129,752,113**
Changes in operating assets:			
Statutory deposits with BoM		16,338,808	(41,451,533)
Reverse repurchase agreements		(99,787,135)	-
Loans and advances to customers		(785,947,321)	(257,749,451)
Derivative financial instruments		50,181,457	63,790,181
Other assets		(26,768,831)	(11,710,564)
Changes in operating liabilities:			
Due to banks		(14,930,713)	49,167,894
Repurchase agreements		149,611,113	-
Due to customers		442,468,900	91,833,073
Other liabilities		62,559,753	(10,801,508)
Cash generated from/(used in) operations		**(31,582,543)**	**12,830,205**
Income tax paid	**11.1**	(46,440,564)	(23,098,641)
Net cash flows used in operating activities		**(78,023,107)**	**(10,268,436)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on debt instruments		108,559,054	60,898,119
Proceeds from financial investments at FVTPL		4,008,400	541,600
Proceeds from disposal of equity instruments at FVTOCI		-	176,034
Proceeds from disposal of debt instruments at AC		17,274,729	23,831,383
Proceeds from disposal of property and equipment		18,745	36,774
Acquisition of property and equipment	**19**	(12,157,028)	(8,197,714)
Acquisition of intangible assets	**20**	(2,701,940)	(5,509,236)
Proceeds from disposal of properties held for sale	**18**	915,910	878,485
Proceeds from disposal of foreclosed properties	**17**	18,771,985	7,576,596
Net cash flows generated from investing activities		**134,689,855**	**80,232,041**

Statement of cash flows (Contd.)

For the year ended 31 December 2023

	Notes	2023 MNT'000	2022 MNT'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on borrowed funds		(89,409,731)	(40,884,194)
Interest paid on debt instruments		-	(164,801)
Drawdown of borrowed funds		769,144,149	368,524,931
Repayment of borrowed funds		(308,886,646)	(344,835,822)
Repayment of debt instruments		-	(8,262,767)
Issue of ordinary shares		34,038,995	-
Dividends paid		(30,000,000)	(15,000,000)
Deferred grants received	**22**	5,884,213	234,101
Payment of lease obligation		(5,264,491)	(3,965,980)
Net cash flows generated from /(used in) financing activities		**375,506,489**	**(44,354,532)**
Effect of exchange rate changes on cash and cash equivalents		**(10,643,560)**	**80,503,259**
Net increase in cash and cash equivalents		**421,529,677**	**106,112,332**
Cash and cash equivalents brought forward		**1,278,466,258**	**1,172,353,926**
Cash and cash equivalents carried forward	**13.3**	**1,699,995,935**	**1,278,466,258**

Reconciliation of changes in liabilities arising from financing activities:

Lease liabilities	2023 MNT'000	2022 MNT'000
At 1 January	5,310,092	5,422,527
Non-cash additions	7,282,341	3,706,778
Termination of lease	(285,738)	(171,252)
Interest expense during the year	633,405	318,019
Payment of lease obligation	(5,264,491)	(3,965,980)
At 31 December	**7,675,609**	**5,310,092**

Borrowed funds	2023 MNT'000	2022 MNT'000
At 1 January	857,363,227	768,775,737
New disbursement	769,144,149	368,524,931
Repayment	(308,886,646)	(344,835,822)
Interest repayment	(89,409,731)	(40,884,194)
Non-cash repayments to BoM and GoM by transferring Senior RMBS	(69,240,700)	(48,088,000)
Foreign exchange movement	(14,142,939)	112,494,895
Interest expense accrued	93,941,235	41,907,336
Modification gain	-	(531,656)
At 31 December	**1,238,768,595**	**857,363,227**

Debt securities issued	2023 MNT'000	2022 MNT'000
At 1 January	-	**8,403,663**
Repayment	-	(8,262,767)
Interest repayment	-	(164,801)
Foreign exchange movement	-	1,268
Interest expense accrued	-	22,637
At 31 December	**-**	**-**

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

1. Corporate information

XacBank JSC is principally engaged in the business of providing banking and financial services pursuant to License No. 24 issued by the Bank of Mongolia ("BoM"). There have been no significant changes in the nature of the Bank's activities during the year.

The Bank is a joint-stock company listed on the Mongolian Stock Exchange ("MSE"), incorporated and domiciled in Mongolia. The Bank's registered address is at XacBank Building, Prime Minister Amar's Street, Sukhbaatar District, Khoroo 8, Ulaanbaatar, Mongolia and the principal place of business is at 9th floor, Blue sky tower, Peace Avenue Street 17, 1st khoroo, Sukhbaatar District, Ulaanbaatar 14240, Mongolia.

The Bank is 94.99% owned by Tenger Financial Group LLC (2022: 100%) and 5.01% is publicly traded.

The holding company of the Bank is TenGer Financial Group LLC, which is incorporated in Mongolia. The shareholders of the holding company are:

- MAK Invest Kft
- International Finance Corporation (IFC)
- ORIX Corporation
- European Bank for Reconstruction and Development (EBRD)
- National Bank of Canada
- Ronoc Partners Kft.
- Mongolia Financial Services Pte. Ltd
- Triodos Fair Share Fund
- Boldoo Magvan
- Ganbold Chuluun

The financial statements of the Bank were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 15 March 2024.

2. Accounting policies

2.1 Basis of preparation

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

The financial statements of the Bank have been prepared on a historical cost basis, except for derivative financial instruments, debt and equity instruments at fair value through OCI, financial assets at FVTPL which have been measured at fair value and and properties held for sale and foreclosed properties which are measured lower of carrying value and fair value less costs to sell. The financial statements are presented in Mongolian Togrog, which is denoted by the symbol MNT, and all values are rounded to the nearest thousands, except when otherwise indicated.

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 29.

Financial assets and financial 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 settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.2 Significant accounting judgments, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

2.2 Significant accounting judgments, estimates and assumptions (Contd.)

Measurement of ECL

The measurement of ECL involves significant management estimates and judgement in the following key areas:

- Significant increase of credit risk: ECL is measured as an allowance equal to 12-months ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.
- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.
  Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Forward looking information: In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:
  - GDP
  - Inflation rate

  When incorporating forward looking information, the Bank considers three scenarios (a base case, an upside and downside). The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: 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, taking into account cash flows from collateral and integral credit enhancements.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions. See note 27 for further disclosures.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs)

New standards and amendments to IFRSs that are mandatorily effective for the current year

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS that became effective for annual period beginning on or after 1 January 2023. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Amendments and interpretations apply for the first time in 2023, but do not have an impact on the financial statements of the Bank.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2023, unless otherwise stated. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Effective for annual periods beginning on or after	New Standards or Amendments
1 January 2023	Amendments to IFRS 17 *Insurance Contracts* Amendments to IAS 8 *Definition of Accounting Estimates* Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies* Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* Amendments to IAS 12 *International Tax Reform - Pillar Two Model Rules*

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. Limited scope exceptions apply.

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

As part of this determination, the Bank assessed credit cards and similar products that include insurance coverage. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The Bank has determined that insurance risk associated with an individual customer has not been assessed in setting the price of the contracts as these products are offered at the same price to all applicants, and therefore they are exempt from IFRS 17.

For loan contracts that meet the definition of an insurance contract, but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, e.g., a loan with waiver on death, there is a choice to apply either IFRS 9 or IFRS 17 to such contracts. This choice is made at a portfolio level and is irrevocable. The Bank has made an irrevocable choice to apply IFRS 9 to each portfolio of these products.
Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

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

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs) (Contd.)

New standards and amendments to IFRSs that are mandatorily effective for the current year (Contd.)

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

Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Bank has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Bank's financial statements.

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

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

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

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

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

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

b) Quantitative information such as:

- An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
- An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Bank has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15% in all the jurisdictions in which it operates. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Bank's financial statements at 31 December 2023.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs) (Contd.)

New standards and amendments to IFRSs that have been issued but are not yet effective

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

Effective for annual periods beginning or after	New Standards or Amendments
1 January 2024	Amendment to IFRS 16 - *Lease Liability in a Sale and Leaseback* Amendment to IAS 1 - *Non-current Liabilities with Covenants and Classification of Liabilities as Current or Non-current* Amendment to IAS 7 and IFRS 7 - *Supplier Finance Arrangements*
1 January 2025	Amendments to IAS 21 - *Lack of Exchangeability*
To be determined	Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

In September 2022, the Board issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendment to IFRS 16 Leases specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16.

The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy in accordance with IAS 8 that results in information that is relevant and reliable.

The amendments are not expected to any significant impact on the Bank's financial statements.

Disclosures: Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the Board issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures.

The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments clarify the characteristics of supplier finance arrangements. In these arrangements, one or more finance providers pay amounts an entity owes to its suppliers. The entity agrees to settle those amounts with the finance providers according to the terms and conditions of the arrangements, either at the same date or at a later date than that on which the finance providers pay the entity's suppliers.

The amendments require an entity to provide information about the impact of supplier finance arrangements on liabilities and cash flows, including terms and conditions of those arrangements, quantitative information on liabilities related to those arrangements as at the beginning and end of the reporting period and the type and effect of non-cash changes in the carrying amounts of those arrangements. The information on those arrangements is required to be aggregated unless the individual arrangements have dissimilar or unique terms and conditions. In the context of quantitative liquidity risk disclosures required by IFRS 7, supplier finance arrangements are included as an example of other factors that might be relevant to disclose.

The amendments are not expected to any significant impact on the Bank's financial statements.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs) (Contd.)

New standards and amendments to IFRSs that have been issued but are not yet effective (Contd.)

Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1

In January 2020 and October 2022, the Board issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

Right to defer settlement

The Board decided that if an entity's right to defer settlement of a liability is subject to the entity complying with the required covenants only at a date subsequent to the reporting period ("future covenants"), the entity has a right to defer settlement of the liability even if it does not comply with those covenants at the end of the reporting period. Furthermore, the Board specified that the requirements in paragraph 72B apply only to liabilities arising from loan arrangements.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies to covenants which the entity is required to comply with on or before the reporting date regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance. However, in these circumstances an entity may need to disclose information about the timing of settlement to enable users to understand the impact on its financial position.

Meaning of the term 'settlement'

The Board added paragraphs 76A and 76B to IAS 1 to clarify what is meant by 'settlement' of a liability. The Board concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception.

In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current.

Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'

Disclosures

IAS 1.76ZA has been added to require an entity to provide disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months. This disclosure must include information about the covenants and the related liabilities as well as any facts and circumstances that indicate the entity may have difficulty complying with the covenants.

The amendments are not expected to any significant impact on the Bank's financial statements.

2.3 Application of new and amendments to International Financial Reporting Standards (IFRSs) (Contd.)

New standards and amendments to IFRSs that have been issued but are not yet effective (Contd.)

Lack of exchangeability - Amendments to IAS 21

In August 2023, the Board issued Lack of Exchangeability (Amendments to IAS 21).

The amendment to IAS 21 specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique.

When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency, it discloses information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

The amendments are not expected to any significant impact on the Bank's financial statements.

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

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted. Key requirements

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The amendments are not expected to any significant impact on the Bank's financial statements.

2.4 Material accounting policies

Foreign currency translation

The financial statements of the Bank are presented in Mongolian Togrogs (MNT), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to 'Net other operating income/(expense)' in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss for the period except for the exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

2.4 Material accounting policies (Contd.)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest and similar income' and 'Interest and similar expense' respectively using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, under 'Net trading loss' and 'Net income from other financial instruments at FVTPL'. Interest income or expense on financial instruments that are measured at amortised cost and fair value through other comprehensive income is determined using the effective interest rate method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net amortised cost or gross carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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 amortised cost, net of the ECL allowance, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit adjusted effective interest rate is applied to the amortised cost.

(ii) Net fees and commission income

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

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time unless otherwise specified below.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

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

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

Fee income from providing transaction services

Fees arising from negotiations or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance obligation are recognised after fulfilling the corresponding criteria of the performance.

The Bank provides a wide range of financial services in exchange for fee or commission income. As to depict the pattern of delivery of services, all of the commission income generated from provision of financial services, such as commission on operations with payment cards fees and commission on mobile-service provided fees which are not an integral part of the effective yield, are recognised on a point-in-time basis, i.e. when the performance obligation is completed. Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as applicable to the other participants.

2.4 Material accounting policies (Contd.)

Recognition of income and expenses (Contd.)

(ii) Net fees and commission income (Contd.)

Fee income forming an integral part of the corresponding financial instrument

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

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

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

(iii) Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held-for-trading'.

(iv) Net income from other financial instruments at FVTPL

Net income from other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL.

Financial instruments - initial recognition and subsequent measurement

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 the 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 amortised cost and investments in debt instruments measured at FVTOCI, resulting in an immediate accounting loss.

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Financial assets- Classification and measurement

The classification of financial assets is determined by the contractual cash flows test referred to as “solely payment of principal and interest” (SPPI) and a business model test.

Financial assets that fail the SPPI test is measured at FVTPL.

For assets passing the SPPI test, a business model test assesses the objective of holding the asset.

The business model test for financial assets is summarised below:

Financial assets are measured at amortised cost if they are held within a business model where the objective is to hold financial assets in order to collect contractual cash flows (“hold to collect” business model).

2.4 Material accounting policies (Contd.)

Financial instruments - initial recognition and subsequent measurement (Contd.)

(ii) Financial assets- Classification and measurement (Contd.)

Financial assets are measured at FVTOCI if they are held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell" business model).

Financial assets are measured at FVTPL if they do not meet the business model criteria of either "hold to collect" or "hold to collect and sell".

(iii) Financial assets measured at amortised cost

On initial recognition, financial assets are recognised at their fair value, including transaction costs directly attributable to the transaction as well as commissions related to the origination of the loans.
They are subsequently measured at amortised cost, including accrued interest and net of repayments of principal and interest during the past period. These financial assets are also subject from initial recognition, to the measurement of ECL allowance.

Interest is calculated using the effective interest method determined at inception of the contract.

This category includes, in particular, cash and balances with BoM, loans and advances to customers, due from banks, repurchase agreements and debt instruments issued by the Government of Mongolia (GoM) and BoM.

(iv) Financial assets measured at FVTOCI

Debt instruments

Debt instruments are classified at FVTOCI if the following two criteria are met:

- Business model criterion: Financial assets are held in a business model whose objective is achieved by both holding the financial assets in order to collect contractual cash flows and selling the financial assets ("collect and sale"). The latter is not incidental but is an integral part of the business model.

- Cash flow criterion: The principles are identical to those applicable to financial assets at amortised cost.

On initial recognition, financial assets are recognised at their fair value, including transaction costs directly attributable to the transaction. They are subsequently measured at fair value and changes in fair value are recognised in other comprehensive income. These financial assets are also subject to the measurement of an ECL allowance on the same approach as for debt instruments at amortised cost. On disposal, changes in fair value previously recognised in other comprehensive income are reclassified to profit or loss.
In addition, interest is recognised in the income statement using the effective interest method determined at the inception of the contract.

Equity instruments

All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the entity has elected to present value changes in other comprehensive income. There is no cost exception for unquoted equities. On disposal of the equity instruments, changes in fair value previously recognised in other comprehensive income are not recognised in profit or loss. Only dividends, if they represent remuneration for the investment and not repayment of capital, are recognised in profit or loss. These instruments are not subject to impairment.

The Bank has elected to present value changes of equity investments in other comprehensive income.

(v) Financial assets measured at FVTPL

A financial instrument may be designated as at FVTPL only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both, that the Bank manages and evaluates on a fair value basis; or (c) relates to a financial liability that contains an embedded derivative which is not evidently closely related to the host contract.

2.4 Material accounting policies (Contd.)

Financial instruments - initial recognition and subsequent measurement (Contd.)

(v) Financial assets measured at FVTPL (Contd.)

This category includes derivative financial instruments, investments in residential mortgage backed securities ("RMBS") and Junior asset backed securities ("ABS") and loans and advances to customers to be sold to wholly owned subsidiaries of MIK Holding JSC ("MIK").

(vi) Borrowed funds, subordinated loans and debt securities issued

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

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

An analysis of the Bank's borrowed funds issued is disclosed in Note 21.4.

(vii) Due to banks

This includes deposits from other banks and financial institutions in foreign currency and local currency accounts and time deposits placed by local and foreign commercial banks and BoM (Note 21.2).

After initial measurement, borrowings are subsequently measured at amortised cost using the EIR.

(viii) Due to customers

This includes current, savings and time deposits from customers (Note 21.3).

After initial measurement, due to customers are subsequently measured at amortised cost using the EIR.

(ix) Financial guarantees, letters of credit and undrawn loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially recognised in the financial statements at their fair values, being the premium received. If not designated as at FVTPL and not arising from a transfer of a financial asset, financial guarantees are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

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

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position (within 'other liabilities') and the remeasurement is presented in profit or loss as Net credit loss expense.

The Bank has not designated any financial guarantee contracts as at FVTPL.

(x) Commitments to provide a loan at a below-market interest rate

Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

2.4 Material accounting policies (Contd.)

Financial instruments - initial recognition and subsequent measurement (Contd.)

(x) Commitments to provide a loan at a below-market interest rate (Contd.)

- Commitments to provide a loan below market rate not designated at FVTPL are presented as provisions in the statement of financial position (within 'other liabilities') and the remeasurement is presented in profit or loss as Net credit loss expense.

The Bank has not designated any commitments to provide a loan below market rate at FVTPL.

Impairment of financial assets measured at amortised cost

The impairment model for credit risk is based on expected losses. This model applies to loans and debt instruments measured at amortised cost, to loan commitments and financial guarantee contracts that are not recognised at fair value, as well as to trade receivables. No impairment loss is recognised on equity investments.

General model

The Bank identifies three 'stages' that correspond each to a specific status with regards to the evolution of counterparty credit risk since the initial recognition of the asset.

- 12-months ECL ('stage 1'): If at the reporting date, the credit risk of the financial instrument has not increased significantly since its initial recognition, this instrument is impaired at an amount equal to 12-months ECL (resulting from the risk of default within the next 12 months).
- Lifetime ECL for non-impaired assets ('stage 2'): The loss allowance is measured at an amount equal to the lifetime ECL if the credit risk of the financial instrument has increased significantly since initial recognition, but the financial asset is not credit impaired.
- Lifetime ECL for credit-impaired financial assets ('stage 3'): when an asset is "credit-impaired", the loss allowance is also measured at an amount equal to the lifetime ECL.

This general model is applied to all instruments within the scope of IFRS 9 impairment, except for purchased or originated credit-impaired financial assets and instruments for which a simplified model is used (see below).

The IFRS 9 expected credit loss approach is symmetrical, i.e. if lifetime ECL have been recognised in a previous reporting period, and if it is assessed in the current reporting period that there is no longer any significant increase in credit risk since initial recognition, the loss allowance reverts to a 12-months ECL.

Regarding interest income, under 'stage' 1 and 2, it is calculated on the gross carrying amount. Under 'stage' 3, interest income is calculated on the amortised cost (i.e. the gross carrying amount adjusted for the ECL allowance).

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators.

Significant increase in credit risk

The Bank monitors all financial assets, that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-months ECL.
The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, that are subject to impairment for significant increase in credit risk.

2.4 Material accounting policies (Contd.)

Impairment of financial assets measured at amortised cost (Contd.)

Significant increase in credit risk (Contd.)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy.

Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Departments. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

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

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

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

Details of forborne loans are disclosed in Note 31.2.

Write-off

Loans and debt instruments are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event.

However, a write-off in accounting terms does not imply debt forgiveness in the legal sense as recovery actions on cash due by the counterparty are pursued particularly if the latter's fortune improve. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities are recognized as impairment gains upon receipt.

2.4 Material accounting policies (Contd.)

Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

(ii) Financial liabilities

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

Derivative financial instruments

The Bank enters into derivative financial instruments which are are held to manage its exposure to foreign exchange rate risk. Derivative held include foreign exchange forward contracts and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 14.2.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognised in profit or loss. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.

2.4 Material accounting policies (Contd.)

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

Modification of financial assets/financial liabilities

Modification of financial assets

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

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

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

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

Modification of financial liabilities

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

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

Cash and cash equivalents

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

Property and equipment

Premises comprising of land and buidings held for use for providing services or for administrative purpose are stated in the financial position at fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses. All other items of property and equipment are stated at cost less less subsequent accumulated depreciation and subsequent accumulated impairment losses (if any).

Properties in the course of construction for providing services or for administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising from revaluation of property is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

2.4 Material accounting policies (Contd.)

Property and equipment (Contd.)

A decrease in net carrying amount arising on revaluation of property and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is recognised so as to write off the cost or revalued amount of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

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

Premises	40 years
Office furniture	10 years
Computer equipment and others	3 - 10 years
Vehicles	10 years
Leasehold improvements	Lower of lease term or useful lives

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in statement of comprehensive income.

Intangible assets

The Bank's other intangible assets include the value of computer software and licenses, software under development and patents and rights.

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

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

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

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.
Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software	1 - 10 years
Patents and rights	1 - 10 years

2.4 Material accounting policies (Contd.)

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to leases of branches that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Bank; and
- an estimate of costs to be incurred by the Bank in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Bank is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Bank obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property and equipment.

Right-of-use assets are presented within line item of property and equipment on the statement of financial position.

The Bank presents right-of-use assets that do not meet the definition of investment property or inventory in "property and equipment", the same line item within which the corresponding underlying assets would be presented if they were owned. Right-of-use assets that meet the definition of investment property and inventory are presented within "investment properties" and "properties for/under development"/"properties for sale" respectively.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities
At the commencement date of a lease, the Bank recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

2.4 Material accounting policies (Contd.)

Leases (Cont'd)

The Bank as a lessee (Contd.)

Lease liabilities (Contd.)

The lease payments include:
- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the bank is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Bank exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Bank remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:
- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Leases liabilities are presented as a separate line item on the statement of financial position and disclosed separately in the notes.

Lease modifications

The Bank accounts for a lease modification as a separate lease if:
- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Bank remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Employee benefits

(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.

2.4 Material accounting policies (Contd.)

Employee benefits (Contd.)

(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.

Provisions

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

Taxes

(i) Current tax

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

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

Deferred tax asset are recognised for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

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

Deferred tax asset and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Bank applies IAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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

In assessing any uncertainty over income tax treatments, the Bank considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

2.4 Material accounting policies (Contd.)

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholder.

Dividends for the year that are approved after the reporting date are disclosed as an event after the statement of financial position date.

Equity reserves

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

'Regulatory reserve' is set up in compliance with the BoM requirement and is distributable to the Shareholder of the Bank subject to BoM's approval. The Regulatory Reserve is created as an appropriation of retained earnings based on the decision made by the management of the Bank or other authorised body, such as the Bank's management in accordance with the regulation of the BoM. Regulatory reserve mainly represents a difference between impairment provision determined for loan loss and impairment of foreclosed assets in accordance with the regulations of BoM and impairment provision determined under IFRS. This reserve represents a part of other reserve and is distributable to shareholder of the Bank subject to BoM's approval.

'Other reserves' which represent appropriations of retained earnings based on the decision of the Bank's Board of Directors. The purpose of this account is not specified at present.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

When the Bank receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the profit or loss over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

Precious metals

Coins and cultural valuables are stated at the lower of cost and net realisable value.

Foreclosed assets

Foreclosed assets are initially recognised at the lower of their fair values less costs to sell and the amortised cost of the related outstanding loans on the date of the repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, foreclosed assets are measured at the lower of their cost and fair value less costs to sell and are included in 'Other assets'.

The Bank's policy is to determine whether a foreclosed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category. Assets that are determined better to be sold are immediately transferred to 'Properties held for sale'. Foreclosed assets where the Bank is yet to determine its use are retained under this account.

Properties held for sale

Properties held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Foreclosed assets are classified as properties held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

2.4 Material accounting policies (Contd.)

Segment reporting

The Bank's segment reporting is based on the following operating segments: retail banking, business banking, leasing and treasury.

Earnings per share

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

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

Transactions with related parties

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. All material transactions and balances with the related parties are disclosed in the relevant notes to financial statements and the details are presented in Note 30.

3. Segment information

For management purposes, the Bank is organised into four operating segments based on products and services as follows:

Retail banking - Individual customers and SME or smaller in size business services including current accounts, term savings, credit and debit cards, consumer loans, credit facility or loans for micro, small and medium companies and internally developed and marketed credit products such as green loan, women entrepreneur loans as well as regular banking account services from payments, currency exchange to cross border cash transfers and remittances.

Business banking - Commercial banking activities for corporate customers including tailored credit offerings including products such as risk sharing facility, export/ import trade financing as well as customized account services from overdrafts, currency deposits to international remittances at preferential rates.

Leasing - Financial leasing services with the portfolio mainly consisting of lease for commercial and passenger vehicles including used cars, complimented by lease products on medical and agricultural equipment.

Treasury & Funding - Cash, currency and liquidity management, securities investments, Interbank placements and any other financial instruments trading on an ad-hoc basis. Also excess funds from other segments allocated to Treasury for centralized assets and liability management purpose.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a Bank wide basis and are not allocated to operating segments.

Interest income is reported net basis as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Transfer pricing between operating segments are based on internal fund transfer method.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2023 and 2022.

Geographical information

All the Bank’s activities were carried out in Mongolia. Therefore, no geographical analysis is presented.

3. Segment information (Contd.)

The following table presents income and profit and certain asset and liability information related to the Bank's operating segments for 2023.

	Retail Banking	Business Banking	Leasing	Treasury & Funding	Total
	2023 MNT'000	2023 MNT'000	2023 MNT'000	2023 MNT'000	2023 MNT'000
Net income					
Third party	155,087,344	79,831,585	53,730,066	18,502,414	307,151,409
Inter-segment	27,463,391	(31,203,739)	(23,273,760)	27,014,108	-
	182,550,735	**48,627,846**	**30,456,306**	**45,516,522**	**307,151,409**
Net credit loss expense	4,966,045	2,352,943	1,155,154	(355,430)	8,118,712
Operating income	**187,516,780**	**50,980,789**	**31,611,460**	**45,161,092**	**315,270,121**
Results					
Net interest income	135,250,517	72,417,083	52,809,116	4,889,880	265,366,596
Net fees and commission income	18,980,070	3,493,708	920,950	-	23,394,728
Net trading gain	-	-	-	11,973,708	11,973,708
Derivative instruments	-	-	-	1,638,826	1,638,826
Depreciation of property and equipment	(5,839,886)	(583,989)	(208,531)	(583,989)	(7,216,395)
Depreciation of right-of-use assets	(4,032,579)	-	(150,490)	-	(4,183,069)
Amortisation of intangible assets	(2,324,795)	(244,201)	(117,217)	(244,201)	(2,930,414)
Other operating expenses	(79,070,674)	(14,561,855)	(12,742,145)	(5,006,840)	(111,381,514)
Amortisation of deferred grants	-	1,129,888	-	-	1,129,888
Net other operating income	856,757	3,920,794	-	-	4,777,551
Net credit loss reversal/(expense)	4,966,045	2,352,943	1,155,154	(355,430)	8,118,712
Inter segment	27,463,391	(31,203,739)	(23,273,760)	27,014,108	-
Segment profit before tax	**96,248,846**	**36,720,632**	**18,393,077**	**39,326,062**	**190,688,617**
Income tax expense	(22,358,450)	(10,246,995)	(4,748,791)	(11,275,736)	(48,629,972)
Profit for the year after tax	**73,890,396**	**26,473,637**	**13,644,286**	**28,050,326**	**142,058,645**
Other segment information					
Capital expenditures:					
Property and equipment	9,444,727	1,588,731	1,123,570	-	12,157,028
Other intangible assets	1,888,459	476,497	336,984	-	2,701,940
	11,333,186	**2,065,228**	**1,460,554**	**-**	**14,858,968**
Total segment assets	**2,878,480,950**	**451,220,104**	**338,586,134**	**1,451,134,453**	**5,119,421,641**
Total segment liabilities	**3,057,376,986**	**253,370,302**	**19,471,931**	**1,167,139,684**	**4,497,358,903**

3. Segment information (Contd.)

The following table presents income and profit and certain asset and liability information related to the Bank's operating segments for 2022.

	Retail Banking	Business Banking	Leasing	Treasury & Funding	Total
	2022 MNT'000	2022 MNT'000	2022 MNT'000	2022 MNT'000	2022 MNT'000
Net income					
Third party	123,666,335	59,952,949	32,016,494	48,035,176	263,670,954
Inter-segment	31,397,611	(18,736,027)	(8,319,441)	(4,342,143)	-
	155,063,946	**41,216,922**	**23,697,053**	**43,693,033**	**263,670,954**
Net credit loss expense	(4,334,662)	(1,894,257)	(2,665,471)	(258,967)	(9,153,357)
Operating income	**150,729,284**	**39,322,665**	**21,031,582**	**43,434,066**	**254,517,597**
Results					
Net interest income	105,118,824	55,922,711	31,688,744	30,946,357	223,676,636
Net fees and commission income	16,560,199	2,524,949	327,750	-	19,412,898
Net trading gain	-	-	-	15,892,158	15,892,158
Derivative instruments	-	-	-	1,091,553	1,091,553
Depreciation of property and equipment	(5,109,233)	(510,923)	(153,936)	(510,923)	(6,285,015)
Depreciation of right-of-use assets	(3,717,112)	-	(92,181)	-	(3,809,293)
Amortisation of intangible assets	(1,626,749)	(162,675)	-	(162,675)	(1,952,099)
Other operating expenses	(75,689,166)	(15,284,576)	(1,614,701)	(4,700,109)	(97,288,552)
Amortisation of deferred grants	-	1,506,637	-	-	1,506,637
Net other operating income	1,987,312	1,505,289	-	105,108	3,597,709
Net credit loss expense	(4,334,662)	(1,894,257)	(2,665,471)	(258,967)	(9,153,357)
Inter segment	31,397,611	(18,736,027)	(8,319,441)	(4,342,143)	-
Segment profit before tax	**64,587,024**	**24,871,128**	**19,170,764**	**38,060,359**	**146,689,275**
Income tax expense	(18,053,677)	(6,751,062)	(5,447,423)	(10,598,527)	(40,850,689)
Profit for the year after tax	**46,533,347**	**18,120,066**	**13,723,341**	**27,461,832**	**105,838,586**
Other segment information					
Capital expenditures:					
Property and equipment	6,886,080	1,205,064	106,570	-	8,197,714
Other intangible assets	4,627,758	809,858	71,620	-	5,509,236
	11,513,838	**2,014,922**	**178,190**	**-**	**13,706,950**
Total segment assets	**2,033,619,572**	**425,287,026**	**217,792,310**	**1,254,081,395**	**3,930,780,303**
Total segment liabilities	**2,481,895,553**	**199,162,508**	**19,590,354**	**754,444,228**	**3,455,092,643**

4. Net interest income

Interest and similar income

	2023 MNT'000	2022 MNT'000
4.1 Financial assets at amortised cost		
Loans and advances to customers	407,131,162	294,038,650
Debt instruments	97,600,543	58,311,299
Cash and balances with BoM	18,493,667	7,359,333
Due from banks	2,043,397	1,046,277
Reverse repurchase agreements	788,190	437,012
Security Finance Corporation (SFC)-Senior ABS	344,251	1,247,474
	526,401,210	**362,440,045**
4.2 Financial instruments at FVTPL		
Swap interest	7,883,806	10,015,348
Loans and advances to customers	4,275,258	4,203,161
	12,159,064	**14,218,509**
Total interest and similar income	**538,560,274**	**376,658,554**

4.3 Interest and similar expense

	2023 MNT'000	2022 MNT'000
Financial liabilities at amortised cost and FVTPL		
Due to customers	156,159,342	105,721,684
Borrowed funds	93,941,235	41,907,336
Swap interest	26,312,965	6,278,609
Due to banks	765,534	1,773,248
Repurchase agreements	755,741	309,484
Interest expense for lease liabilities (Note 19.3)	633,405	318,019
Other interest expenses	1,649	799
Debt securities issued	-	22,637
	278,569,871	**156,331,816**
Net interest income	**259,990,403**	**220,326,738**

5. Net fees and commission income

	2023 MNT'000	2022 MNT'000
Fees and commission income		
Card related fees and commissions	20,081,885	18,373,247
Remittance, trade finance and other service fees	12,861,959	8,711,913
Account service fees and commissions	3,535,503	3,382,538
Credit related fees and commissions	424,783	233,962
	36,904,130	**30,701,660**
Fees and commission expenses		
Card transaction charges	8,352,025	7,587,388
Bank service charges	5,096,477	3,651,914
Credit related fees and commissions	60,900	49,460
	13,509,402	**11,288,762**
Net fees and commission income	**23,394,728**	**19,412,898**

5. Net fees and commission income (Contd.)

	Retail Banking 2023 MNT'000	Business Banking 2023 MNT'000	Leasing 2023 MNT'000	Total 2023 MNT'000
Fee income from providing financial services at a point in time				
Card related fees and commissions	20,081,885	-	-	20,081,885
Remittance, trade finance and other service fees	8,740,064	3,192,945	920,950	12,853,959
Account service fees and commissions	3,535,503	-	-	3,535,503
Credit related fees and commissions	124,020	300,763	-	424,783
	32,481,472	**3,493,708**	**920,950**	**36,896,130**
Fee income earned from services that are provided over time				
Remittance, trade finance and other service fees	8,000	-	-	8,000
	8,000	**-**	**-**	**8,000**
Total revenues from contracts with customers	**32,489,472**	**3,493,708**	**920,950**	**36,904,130**

	Retail Banking 2022 MNT'000	Business Banking 2022 MNT'000	Leasing 2022 MNT'000	Total 2022 MNT'000
Fee income from providing financial services at a point in time				
Card related fees and commissions	18,373,247	-	-	18,373,247
Remittance, trade finance and other service fees	6,001,607	2,375,379	327,750	8,704,736
Account service fees and commissions	3,382,538	-	-	3,382,538
Credit related fees and commissions	84,392	149,570	-	233,962
	27,841,784	**2,524,949**	**327,750**	**30,694,483**
Fee income earned from services that are provided over time				
Remittance, trade finance and other service fees	7,177	-	-	7,177
	7,177	**-**	**-**	**7,177**
Total revenues from contracts with customers	**27,848,961**	**2,524,949**	**327,750**	**30,701,660**

6. Net trading income

	2023 MNT'000	2022 MNT'000
Foreign exchange	8,219,838	14,059,217
Interest income on Senior RMBS (FVTPL) (Note 27)	3,827,812	1,952,120
Derivative instruments	1,638,826	1,091,553
Precious metal	24,638	(144,193)
Fair value changes in Senior RMBS (FVTPL) (Note 27)	(98,580)	25,014
	13,612,534	**16,983,711**

7. Net income from other financial instruments at FVTPL

Net income from financial instruments mandatorily measured at FVTPL other than held for trading

	2023 MNT'000	2022 MNT'000
Interest income on Junior RMBS (Note 27)	5,213,724	4,513,703
Interest income on SFC Junior ABS (Note 27)	392,250	205,980
Fair value changes SFC Junior ABS (Note 27)	145,600	(181,539)
Fair value changes in Junior RMBS (Note 27)	(375,381)	(1,188,246)
	5,376,193	**3,349,898**

8. Net other operating income

	2023 MNT'000	2022 MNT'000
Unrealised foreign exchange gain/ (loss)	62,322,489	(57,154,258)
Reversal of impairment on foreclosed properties, net (Note 17)	6,939,062	1,126,650
Other operating income	1,642,197	1,442,060
Gain on disposal of properties held for sale (Note 18)	410,149	316,337
Rental income	328,139	877,675
Loss on disposal of property and equipment	(18,867)	(4,564)
Loss on disposal of foreclosed properties (Note 17)	(3,155,286)	(419,419)
Fair value change of swaps	(63,690,332)	57,307,075
Gain on disposal of equity instruments	-	106,153
	4,777,551	**3,597,709**

9. Net credit loss (reversal)/expense

	2023 MNT'000	2022 MNT'000
(Reversal)/charge of ECL:		
Other financial assets (Note 17)	76,439	305,922
Contingent liability and commitments (Note 24)	61,638	(134,024)
Reverse repurchase agreements (Note 16.2)	10,989	-
Due from banks (Note 16.1)	(1,790)	258,967
Mandatory cash balances with BoM (Note 13.2)	(34,346)	226,318
Debt instruments (Note 16.3)	(177,555)	107,202
Loans and advances to customers (Note 16.4)	(8,054,087)	5,812,749
Modification loss, net (Note 31.2)	-	2,576,223
	(8,118,712)	**9,153,357**

10. Operating expenses

	2023 MNT'000	2022 MNT'000
Personnel expenses*	75,835,467	66,185,327
IT, network and communications	8,883,876	9,224,662
Depreciation of property and equipment (Note 19)	7,216,395	6,285,015
Deposit insurance expense	5,616,858	4,351,077
Depreciation of right of use assets (Note 19)	4,183,069	3,809,293
Marketing and advertising	3,515,287	2,415,619
Amortisation of intangible assets (Note 20)	2,930,414	1,952,099
Other operating expenses	2,537,058	2,018,285
Outside service fees	2,461,280	3,265,729
Meeting and staff activity	2,058,636	1,405,772
Stationary	1,499,652	1,171,040
Business trip	1,430,483	614,268
Utilities	1,388,531	1,117,030
Armored guard and security	1,305,559	1,168,578
Insurance	909,463	691,409
Repairs and maintenance	868,639	659,912
Transportation	867,331	873,682
Membership and audit expenses	867,143	901,592
Expense relating to lease of low-value assets, excluding short term leases (Note 19.3)	493,265	511,836
Loan collection	447,496	279,412
Property and equipment write-off (Note 19)	206,848	89,955
Rental of premises (Note 19.3)	90,131	179,400
Penalty	67,288	11,464
Donations	31,223	38,433
Intangible asset written-off (Note 20)	-	114,070
	125,711,392	**109,334,959**

*** Personnel expenses**		
Salaries, wages and bonus	66,548,937	57,907,963
Contribution to social and health fund	8,398,102	7,355,620
Retirement savings plan	704,234	587,791
Staff training	184,194	333,953
	75,835,467	**66,185,327**

11. Corporate income tax

11.1 Income tax expense

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

	2023 MNT'000	2022 MNT'000
Current tax:		
Current income tax	52,359,776	42,232,735
Deferred tax		
Relating to origination and reversal of temporary differences (Note 11.2)	(3,729,804)	(1,382,046)
Income tax expense for the year	**48,629,972**	**40,850,689**

The Bank provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank in 2023 is 10% (2022: 10%) for the first MNT 6 billion (2022: MNT 6 billion) of taxable income, and 25% (2022: 25%) on the excess of taxable income over MNT 6 billion (2022: MNT 6 billion). Interest income on government bonds is not subject to income tax.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank for the year ended 31 December 2023 and 2022 are as follows:

	2023 MNT'000	2022 MNT'000
Profit before tax	190,688,617	146,689,275
Tax at statutory tax rate of 25% (2022: 25%)	47,672,154	36,672,319
Effect of income tax subject to lower tax rate	(900,000)	(900,000)
Effect of income not subject to tax	(2,363,527)	(593,256)
Effect of expenses not deductible for tax purposes	3,650,693	5,136,793
Effect of the special tax for certain type of taxable income	570,652	508,561
Overseas current tax *	-	26,272
Tax expense for the year	**48,629,972**	**40,850,689**

The effective income tax rate for 2023 is 25.50% (2022: 27.85%).

* Being the tax difference between United States and Mongolia on income earned from selling Micro Energy Credits shares.

Income tax payable

	2023 MNT'000	2022 MNT'000
Income tax payable as at 1 January	23,840,068	4,705,974
Income tax expense for the year	52,359,776	42,232,735
Tax paid	(46,440,564)	(23,098,641)
Income tax payable as at 31 December	**29,759,280**	**23,840,068**

11.2 Deferred tax assets

	2023 MNT'000	2022 MNT'000
At beginning of the year	5,232,744	4,135,441
Recognised in statement of profit or loss (Note 11.1)	3,729,804	1,382,046
Recognised in other comprehensive income	(92,479)	(284,743)
At end of the year	**8,870,069**	**5,232,744**

11. Corporate income tax (Contd.)

11.2 Deferred tax assets (Contd.)

Deferred taxes analysed by type of temporary difference

As at 31 December 2023	**1 January 2023 MNT'000**	**Recognised in statement of profit or loss MNT'000**	**Recognized in other comprehensive income MNT'000**	**31 December 2023 MNT'000**
Property and equipment	(786,734)	(362,910)	-	(1,149,644)
Depreciation of right of use assets	18,732	11,767	-	30,499
Loans and advances to customers	1,698,218	911,323	-	2,609,541
Other liabilities				
Deferral of long term incentive plan	15,610	1,392,220	-	1,407,830
Accrued expense for employees	4,854,794	1,704,519	-	6,559,313
Accrued expense	405,425	72,885	-	478,310
Financial instruments at FVTOCI	(973,301)	-	(92,479)	(1,065,780)
Net deferred tax assets/(liabilities)	**5,232,744**	**3,729,804**	**(92,479)**	**8,870,069**

As at 31 December 2022	**1 January 2022 MNT'000**	**Recognised in statement of profit or loss MNT'000**	**Recognized in other comprehensive income MNT'000**	**31 December 2022 MNT'000**
Property and equipment	(758,945)	(27,789)	-	(786,734)
Depreciation of right of use assets	44,982	(26,250)	-	18,732
Loans and advances to customers	2,015,077	(316,859)	-	1,698,218
Other liabilities				
Deferral of long term incentive plan	216,933	(201,323)	-	15,610
Accrued expense for employees	3,151,737	1,703,057	-	4,854,794
Accrued expense	259,507	145,918	-	405,425
Financial instruments at FVTOCI	(688,558)	-	(284,743)	(973,301)
Borrowings	(105,292)	105,292	-	-
Net deferred tax assets/(liabilities)	**4,135,441**	**1,382,046**	**(284,743)**	**5,232,744**

12. Earnings per share

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

	2023 MNT'000	2022 MNT'000
Profit for the year	142,058,645	105,838,586
Weighted average number of ordinary shares for basic and diluted earnings per share	1,029,021,096	1,000,000,000

Earnings per share	**2023 MNT**	**2022 MNT**
Equity holders of the Bank for the period:		
Basic earnings per share	138.05	105.84
Diluted earnings per share	138.05	105.84

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

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

13. Cash and bank balances

13.1 Cash and balances with BoM

	2023 MNT'000	2022 MNT'000
Current account with BoM	-	225,503,771
Overnight deposit with BoM	290,381,370	105,063,288
Cash on hand	32,165,664	37,049,491
Cash in transit	35,812,245	63,725,100
	358,359,279	**431,341,650**

13.2 Mandatory cash balances with BoM

	2023 MNT'000	2022 MNT'000
Mandatory cash balances with BoM	239,748,125	256,086,933
Less: Impairment allowance for Mandatory cash balances with the BoM	(369,750)	(404,096)
	239,378,375	**255,682,837**

	2023 MNT'000	2022 MNT'000
At beginning of the year	404,096	177,778
(Reversal)/charge for the year (Note 9)	(34,346)	226,318
At end of the year	**369,750**	**404,096**

Current accounts with BoM are maintained in accordance with BoM's regulations. The balances maintained with BoM are determined at not less than 8.0% and 18.0% (2022: 8.0% and 18.0%) of customer deposits in local and foreign currency, respectively on average balance of two weeks before period end. As at 31 December 2023, the average reserve required by BoM for that period of 2 weeks was MNT 156,778.74 million (2022: MNT 132,857.84 million) for local currency and MNT 82,969.39 million (2022: MNT 123,229.10 million) for foreign currency maintained in current accounts with BoM.

13. Cash and bank balances (Contd.)

13.3 Cash and cash equivalents

	Note	2023 MNT'000	2022 MNT'000
Cash and balances with BoM	**13.1**	358,359,279	431,341,650
Due from banks	**16.1**	394,238,579	282,232,458
BoM treasury bills	**16.3**	960,398,077	577,171,150
Less: BoM treasury bills pledged against borrowed funds from BoM	**16.3**	(13,000,000)	(12,279,000)
Total cash and cash equivalents		**1,699,995,935**	**1,278,466,258**

Additional information on non cash transaction

During the year, the Bank sold certain 5% to 8% mortgage loans with a carrying amount of MNT 99,444 million (2022: MNT 48,475 million) to MIK for which it received RMBS amounting to MNT 89,500 million (2022: MNT 43,627 million) senior tranche and MNT 9,944 million (2022: MNT 4,848 million) junior tranche, in return.

During the year of 2022, the Bank sold certain 10.5% repo financed loans with a carrying amount of MNT 14,049 million to SFC for which it received ABS amounting to MNT 11,239 million senior tranche and MNT 2,810 million junior tranche, in return. The Bank, however, did not sell any repo financed loans in 2023.

14. Financial instruments at fair value through profit or loss

14.1 Financial assets

	2023 MNT'000	2022 MNT'000
Debt instruments		
MIK-Junior RMBS	59,768,115	49,609,271
MIK-Senior RMBS	49,141,819	29,528,142
SFC-Junior ABS	1,399,212	4,759,752
	110,309,146	**83,897,165**
Loans and advances to customers at FVTPL	**93,116,520**	**102,764,818**

14. Financial instruments at fair value through profit or loss (Contd.)

14.2 Derivative financial instruments

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

	Assets 2023 MNT'000	Liabilities 2023 MNT'000	Notional amount 2023 MNT'000
Derivatives held for trading			
Cross currency interest rate swap	56,789,344	14,096,897	1,230,483,155
Foreign currency forward contracts	11,574	235,218	(118,255)
	56,800,918	**14,332,115**	**1,230,364,900**

	Assets 2022 MNT'000	Liabilities 2022 MNT'000	Notional amount 2022 MNT'000
Derivatives held for trading			
Cross currency interest rate swap	107,798,730	1,639,595	760,947,158
	107,798,730	**1,639,595**	**760,947,158**

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

Disclosures concerning the fair value of derivatives are provided in Note 27.

15. Financial assets at fair value through other comprehensive income

	Fair value 2023 MNT'000	Changes in fair value taken directly through OCI 2023 MNT'000	Fair value 2022 MNT'000	Changes in fair value taken directly through OCI 2022 MNT'000
Equity instruments				
Unquoted equities*	418,544	(97,913)	415,108	(100,491)
Quoted equities**	4,633,662	3,295,254	4,267,181	3,020,394
	5,052,206	**3,197,341**	**4,682,289**	**2,919,903**

* Unquoted equity instruments represent investments made in unquoted private companies.
**Quoted equities at fair value represent equity investment in MIK, listed on the Mongolia Stock Exchange.

Equity instruments designated at fair value through OCI include investments in equity shares of non-listed companies. The Bank holds non-controlling interests in these companies. These investments were irrevocably designated at fair value through OCI as the Bank considers these investments to be strategic in nature.

During the year, the Bank didn't receive any dividends.

Disclosures concerning the fair value of equities are provided in Note 27.

16. Financial assets at amortised cost

16.1 Due from banks

	2023 MNT'000	2022 MNT'000
Placement with BoM		
Term deposits	205,142,762	138,063,548
Placement with foreign banks and financial institutions		
Current accounts	90,754,026	85,191,962
Placement with local banks and financial institutions		
Current accounts	3,148,991	9,068,957
Term deposits	95,192,800	50,379,296
Gross carrying amount	**394,238,579**	**282,703,763**
Less: Impairment allowance for due from banks	(469,515)	(471,305)
	393,769,064	**282,232,458**

Impairment allowance for due from banks

At beginning of the year	471,305	212,338
(Reversal)/charge for the year (Note 9)	(1,790)	258,967
At end of the year	**469,515**	**471,305**

16.2 Reverse repurchase agreement

	2023 MNT'000	2022 MNT'000
Reverse repurchase agreements	99,751,658	-
Less: Impairment allowance for reverse repurchase agreements	(10,989)	-
	99,740,669	**-**

Impairment allowance reverse repurchase agreement

At beginning of the year	-	-
Charge for the year (Note 9)	10,989	-
At end of the year	**10,989**	**-**

16.3 Debt instruments

	2023 MNT'000	2022 MNT'000
BoM treasury bills (Note 13.3)	960,398,077	577,171,150
"Erdenes-Tavantolgoi" JSC bonds	-	12,279,452
SFC-Senior ABS	795,604	8,237,697
Less: Impairment allowance for debt instruments	(1,123,057)	(1,300,612)
	960,070,624	**596,387,687**

Impairment allowance for debt instruments

At beginning of the year	1,300,612	1,193,410
(Reversal)/charge for the year (Note 9)	(177,555)	107,202
At end of the year	**1,123,057**	**1,300,612**

As at 31 Decemcer 2023, the carrying amount of BoM treasury bill which have been pledged as security for the borrowing obtained from BoM, is MNT 13.00 billion (2022: 12.28 billion).

16. Financial assets at amortised cost (Contd.)

16.4 Loans and advances to customers

	2023 MNT'000	2022 MNT'000
Loans and advances to customers at amortised cost*	2,466,452,241	1,826,194,031
Lease receivables	223,267,770	148,392,204
Less: Allowance for impairment losses	(62,485,601)	(74,533,608)
	2,627,234,410	**1,900,052,627**

Transferred financial assets that are derecognised in their entirety

Sale of mortgage pool

During the year, the Bank sold 100% of the rights of the cash flows arising from portfolios of fixed rate mortgage loans to wholly owned special purpose companies of MIK in exchange for RMBS. The Bank derecognised the loan portfolio and recognised the Senior RMBS and Junior RMBS received as financial assets (see Note 14.1).

Bank's continuing involvement in the transferred assets is also to act as servicer of the transferred assets until its maturity, with an quarterly servicing fee of 2.5% of serviced amount. The total servicing fee recognised in 2023 amounts to MNT 1,507 million (2022: MNT 572 million) included within Fees and commission income. The Bank may become obligated to repurchase the derecognised financial assets in the unlikely event of liquidation of the special purpose companies. The undiscounted cash outflows that may be required to repurchase derecognised financial assets amounts to MNT 370,325 million as of 31 December 2023 (2022: MNT 306,852 million).

Sale of SME loan pool

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

As part of sub-program in supporting SMEs, the Bank participated in securitisation transactions with wholly owned special purpose companies of SFC in selling SME loan pools collateralized by immovable assets with recourse. The Bank originated a total of Nil (2022: MNT 14,409 million) of SME loans with an interest rate of 10.5% p.a and maturity of 2-3 years ("Repo financed loans"), in return for which the Bank received ABS. As per the amendment made to the General repurchase agreement dated on 28 November 2022, Banks are no longer be obliged to replace the non-performing loans to SFC. The assets that qualify for derecognition amounted to MNT 1,879 million (2022: MNT 11,860 million). The Bank recognized the Senior ABS and Junior ABS received as financial assets bearing an interest rate of 9.5% p.a with a maturity of up to 3 years (see Notes 14.1 and 16.3).

Bank's continuing involvement in the transferred assets is also to act as servicer of the transferred assets until its maturity, with an quarterly servicing fee of 0.5% of serviced amount. The total servicing fee recognised in 2023 amounts to MNT 53 million (2022: MNT 60 million) included within Fees and commission income. The Bank may become obligated to repurchase the derecognised financial assets in the unlikely event of liquidation of the special purpose companies. The undiscounted cash outflows that may be required to repurchase derecognised financial assets amounts to MNT 1,879 million as of 31 December 2023 (2022: MNT 11,860 million).

16. Financial assets at amortised cost (Contd.)

16.4 Loans and advances to customers (Contd.)

	2023 MNT'000	2022 MNT'000
Loans and advances to customers at amortised cost		
Gross carrying amount		
Stage 1	2,333,989,290	1,685,457,652
Stage 2	51,813,186	59,117,724
Stage 3	80,649,765	81,618,655
	2,466,452,241	**1,826,194,031**
Less: Allowance for impairment losses		
Stage 1	(10,531,240)	(9,272,778)
Stage 2	(4,992,341)	(12,671,762)
Stage 3	(42,950,129)	(47,108,344)
	(58,473,710)	**(69,052,884)**
Net loans and advances to customers	**2,407,978,531**	**1,757,141,147**

	2023 MNT'000	2022 MNT'000
Lease receivables at amortised cost		
Gross carrying amount		
Stage 1	218,512,893	138,886,491
Stage 2	3,035,616	8,254,243
Stage 3	1,719,261	1,251,470
	223,267,770	**148,392,204**
Less: Allowance for impairment losses		
Stage 1	(2,200,147)	(1,733,349)
Stage 2	(696,556)	(3,198,661)
Stage 3	(1,115,188)	(548,714)
	(4,011,891)	**(5,480,724)**
Net lease receivables	**219,255,879**	**142,911,480**

Impairment allowance for loans and advances to customers and lease receivables

	2023 MNT'000	2022 MNT'000
At beginning of the year	74,533,608	75,719,215
(Reversal)/charge for the year (Note 9)	(8,054,087)	5,812,749
Written off	(3,993,920)	(6,998,356)
At end of the year	**62,485,601**	**74,533,608**

16. Financial assets at amortised cost (Contd.)

16.4 Loans and advances to customers (Contd.)

Lease receivables

MNT'000	**Lease payments 2023**	**Present value of lease payments 2023**	**Lease payments 2022**	**Present value of lease payments 2022**
Total minimum lease receivables				
Within 1 year (inclusive)	68,468,375	29,754,125	62,936,521	56,171,791
Over 1 year but within 2 years (inclusive)	90,345,646	62,346,326	48,192,804	37,335,050
Over 2 years but within 3 years (inclusive)	60,750,759	42,241,879	36,878,118	24,398,218
Over 3 years but within 4 years (inclusive)	40,729,256	28,094,396	26,137,343	14,948,969
Over 4 years but within 5 years (inclusive)	29,744,252	21,207,666	16,271,423	7,976,133
Over 5 years	47,174,939	39,623,378	19,295,368	7,562,043
Unguaranteed residual values	337,213,227	223,267,770	209,711,577	148,392,204
Gross investment in the lease	337,213,227	223,267,770	209,711,577	148,392,204
Less: Unearned finance income	(113,945,457)	-	(61,319,373)	-
Present value of minimum lease payment receivables	223,267,770	223,267,770	148,392,204	148,392,204
Less: Impairment allowances	(4,011,891)	(4,011,891)	(5,480,724)	(5,480,724)
Net carrying amount of finance lease receivables	219,255,879	219,255,879	142,911,480	142,911,480

17. Other assets

	2023 MNT'000	2022 MNT'000
Other financial assets		
Receivables on cash and settlement services	22,086,651	5,864,077
Receivables from companies and individuals	6,342,330	4,257,979
Cash collaterals*	3,107,386	1,915,537
Deferred staff loan**	2,267,059	1,496,227
Other financial assets	212,191	4,369,411
Less: Impairment allowance for other financial assets	(1,924,534)	(1,873,647)
	32,091,083	**16,029,584**
Other non-financial assets		
Advance to vendor for goods and service	3,548,871	3,370,152
Consumables and other inventories	2,598,458	1,983,807
Prepaid expense	944,920	49,777
Precious metals	94,439	94,439
VAT receivables	20,569,659	13,703,576
Other non-financial assets	1,985,750	3,142,019
Foreclosed properties	10,784,829	41,433,855
Less: Impairment allowance for foreclosed properties	(1,340,861)	(8,279,923)
	39,186,065	**55,497,702**
Total other assets	**71,277,148**	**71,527,286**
Impairment allowance for other financial assets		
Stage 1	38,463	13,918
Stage 2	129,333	17,811
Stage 3	1,756,738	1,841,918
	1,924,534	**1,873,647**
Impairment allowance for other financial assets		
At beginning of the year	1,873,647	1,618,289
Charge for the year (Note 9)	76,439	305,922
Written off	(25,552)	(50,564)
At end of the year	**1,924,534**	**1,873,647**

* Cash collaterals are guarantee deposits placed with international card payment organisations for interchange service.

**The Bank provides loans to its employees at preferential rates. In accordance with IFRS, fair value adjustments at initial recognition are recognised as deferred employee benefits and are amortised according to the terms of the loan.

17. Other assets (Contd.)

	2023 MNT'000	2022 MNT'000
Foreclosed properties		
At beginning of the year	41,433,855	46,795,646
Add: Possession	1,582,320	2,634,224
Add: Transfer from properties held for sale (Note 18)	1,298,511	-
Less: Sold during the year	(21,927,271)	(7,996,015)
Less: Transfer to loans and advances to customers (Note 31.2)	(11,602,586)	-
	10,784,829	**41,433,855**
Less: Allowances for impairment losses	(1,340,861)	(8,279,923)
At end of the year	**9,443,968**	**33,153,932**

	2023 MNT'000	2022 MNT'000
Impairment allowance for foreclosed properties		
At beginning of the year	8,279,923	9,406,573
Reversal for the year (Note 8)	(6,939,062)	(1,126,650)
At end of the year	**1,340,861**	**8,279,923**

Proceeds from the sale of foreclosed properties during the year were MNT 18,771,985 thousand (2022: MNT 7,576,596 thousand) and the loss on the sale of such properties amounted to MNT 3,155,286 thousand (2022: loss amounted to MNT 419,419 thousand) (Note 8).

18. Properties held for sale

	2023 MNT'000	2022 MNT'000
At beginning of the year	2,063,167	133,594
Add: Transfer from property and equipment (Note 19)	59,081	500,393
Add: Possession	1,069,274	1,991,328
Less: Sold during the year	(505,761)	(562,148)
Less: Transfer to foreclosed properties (Note 17)	(1,298,511)	-
	1,387,250	**2,063,167**
Less: Allowances for impairment losses	-	-
At end of the year	**1,387,250**	**2,063,167**

Proceeds from the sale of buildings during the year were MNT 915,910 thousand (2022: MNT 878,485 thousand). The gain on the sale of properties held for sale amounted to MNT 410,149 thousand (2022: MNT 316,337 thousand) and is recorded as part of "Net other operating income" (Note 8).

The Management assessed that those assets are available for immediate sale and can be sold to the buyer in its current condition. The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification.

19. Property, equipment and right-of-use assets

At 31 December 2023	Leasehold improve-ments MNT'000	Premises MNT'000	Vehicles MNT'000	Office furniture MNT'000	Computer equipment and others MNT'000	Construction in progress MNT'000	Right-of-use assets MNT'000	Total MNT'000
At cost or revaluation								
At 1 January 2023	**811,172**	**38,429,041**	**6,136,760**	**5,421,538**	**46,731,879**	**1,459,295**	**11,484,699**	**110,474,384**
Additions	1,894,955	1,357,815	830,860	746,504	5,658,588	1,668,306	7,282,341	19,439,369
Write-off	-	-	-	(1,142,256)	(1,676,348)	-	-	(2,818,604)
Disposals	-	-	-	(205,768)	(11,991)	-	-	(217,759)
Termination of lease	-	-	-	-	-	-	(285,738)	(285,738)
Reclassification	90,877	132,032	216,340	5,029	731,984	(1,176,262)	-	-
Reclassification to other asset	-	-	-	-	-	(283,034)	-	(283,034)
Transfer to property held for sale (Note 18)	-	-	(593,234)	-	-	-	-	(593,234)
At 31 December 2023	**2,797,004**	**39,918,888**	**6,590,726**	**4,825,047**	**51,434,112**	**1,668,305**	**18,481,302**	**125,715,384**
Accumulated depreciation								
At 1 January 2023	**252,019**	**740,932**	**2,186,833**	**3,283,056**	**30,599,151**	**-**	**5,191,136**	**42,253,127**
Charge for the year (Note 10)	558,077	822,806	633,211	489,255	4,713,046	-	4,183,069	11,399,464
Write-off	-	-	-	(958,560)	(1,653,196)	-	-	(2,611,756)
Disposals	-	-	-	(170,120)	(10,027)	-	-	(180,147)
Transfer to property held for sale (Note 18)	-	-	(534,153)	-	-	-	-	(534,153)
At 31 December 2023	**810,096**	**1,563,738**	**2,285,891**	**2,643,631**	**33,648,974**	**-**	**9,374,205**	**50,326,535**
Net Carrying amount at 31 December 2023	**1,986,908**	**38,355,150**	**4,304,835**	**2,181,416**	**17,785,138**	**1,668,305**	**9,107,097**	**75,388,849**

19. Property, equipment and right-of-use assets (Contd.)

	Leasehold improve-ments MNT'000	Premises MNT'000	Vehicles MNT'000	Office furniture MNT'000	Computer equipment and others MNT'000	Construction in progress MNT'000	Right-of-use assets MNT'000	Total MNT'000
At 31 December 2022								
At cost or revaluation								
At 1 January 2022	**1,250,153**	**36,502,954**	**4,673,960**	**5,399,322**	**44,774,928**	**1,850,696**	**18,219,431**	**112,671,444**
Additions	496,317	940,947	1,462,800	517,265	3,366,161	1,414,224	3,706,778	11,904,492
Write-off	(935,298)	-	-	(283,792)	(1,696,351)	-	(10,270,258)	(13,185,699)
Disposals	-	-	-	(211,257)	(26,271)	-	-	(237,528)
Termination of lease	-	-	-	-	-	-	(171,252)	(171,252)
Reclassification	-	1,492,213	-	-	313,412	(1,805,625)	-	-
Transfer to property held for sale (Note 18)	-	(507,073)	-	-	-	-	-	(507,073)
At 31 December 2022	**811,172**	**38,429,041**	**6,136,760**	**5,421,538**	**46,731,879**	**1,459,295**	**11,484,699**	**110,474,384**
Accumulated depreciation								
At 1 January 2022	**1,023,847**	**-**	**1,697,947**	**3,197,333**	**27,886,205**	**-**	**11,652,101**	**45,457,433**
Charge for the year (Note 10)	163,470	747,612	488,886	471,120	4,413,927	-	3,809,293	10,094,308
Write-off	(935,298)	-	-	(212,130)	(1,678,058)	-	(10,270,258)	(13,095,744)
Disposals	-	-	-	(173,267)	(22,923)	-	-	(196,190)
Transfer to property held for sale (Note 18)	-	(6,680)	-	-	-	-	-	(6,680)
At 31 December 2022	**252,019**	**740,932**	**2,186,833**	**3,283,056**	**30,599,151**	**-**	**5,191,136**	**42,253,127**
Net Carrying amount at 31 December 2022	**559,153**	**37,688,109**	**3,949,927**	**2,138,482**	**16,132,728**	**1,459,295**	**6,293,563**	**68,221,257**

19. Property, equipment and right-of-use assets (Contd.)

19.1 Revaluation of premises

Land and buildings are carried at fair value. Had the premises been measured on a historical cost basis, their carrying amount would have been MNT 20.3 billion as at 31 December 2023 (2022: MNT 19.5 billion).

19.2 Gross carrying amount of fully depreciated property and equipment

	2023 MNT'000	2022 MNT'000
Computer equipment and others	18,892,609	15,313,167
Office furniture	584,042	709,676
Vehicles	-	135,712
	19,476,651	**16,158,555**

19.3 Right-of-use assets and lease liabilities

The amounts recognised in profit or loss in relation to leases are as follows:

	2023 MNT'000	2022 MNT'000
Interest on lease liabilities (Note 4)	633,405	318,019
Depreciation charge of right-of-use assets (Note 10)	4,183,069	3,809,293
Expense relating to short-term leases (Note 10)	90,131	179,400
Expense relating to lease of low-value assets, excluding short-term leases (Note 10)	493,265	511,836
	5,399,870	**4,818,548**

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

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

The Bank has extension and/or termination options in a number of leases for office and branch spaces. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations.

The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. The potential exposures to these future lease payments for (i) extension options in which the Bank is not reasonably certain to exercise and (ii) termination options in which the Bank is not reasonably certain not to exercise are summarised below:

	Lease liabilities recognised as at 31 December 2023 MNT'000	Potential future lease payments not included in lease liabilities (undiscounted) MNT'000	Lease liabilities recognised as at 31 December 2022 MNT'000	Potential future lease payments not included in lease liabilities (undiscounted) MNT'000
Branches	5,078,146	5,710,789	5,097,566	5,757,755
Office space	2,597,463	2,969,118	212,526	222,672
	7,675,609	**8,679,907**	**5,310,092**	**5,980,427**

In addition, the Bank reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2023, there is no such triggering event.

Lease committments

As at 31 December 2023, the Bank has not entered into new leases that have not yet commenced.

20. Intangible assets

	Patents and rights MNT'000	Computer software MNT'000	Software under development MNT'000	Total MNT'000
At 31 December 2023				
At cost				
At 1 January 2023	10,271,216	17,648,589	533,277	28,453,082
Additions	1,706,896	309,763	685,281	2,701,940
Write-off	(2,048,130)	-	-	(2,048,130)
Reclassification	-	190,047	(190,047)	-
At 31 December 2023	**9,929,982**	**18,148,399**	**1,028,511**	**29,106,892**
Accumulated amortisation				
At 1 January 2023	6,253,102	3,304,392	-	9,557,494
Charge for the year (Note 10)	974,767	1,955,647	-	2,930,414
Write-off	(2,048,130)	-	-	(2,048,130)
At 31 December 2023	**5,179,739**	**5,260,039**	**-**	**10,439,778**
Net carrying amount	**4,750,243**	**12,888,360**	**1,028,511**	**18,667,114**
At 31 December 2022				
At cost				
At 1 January 2022	10,972,271	13,776,776	6,611,062	31,360,109
Additions	17,461	5,256,951	234,824	5,509,236
Write-off	(798,525)	(7,617,738)	-	(8,416,263)
Reclassification	80,009	6,232,600	(6,312,609)	-
At 31 December 2022	**10,271,216**	**17,648,589**	**533,277**	**28,453,082**
Accumulated amortisation				
At 1 January 2022	6,087,266	9,820,322	-	15,907,588
Charge for the year (Note 10)	964,361	987,738	-	1,952,099
Write-off	(798,525)	(7,503,668)	-	(8,302,193)
At 31 December 2022	6,253,102	3,304,392	-	9,557,494
Net carrying amount	**4,018,114**	**14,344,197**	**533,277**	**18,895,588**

21. Financial liabilities at amortised cost

21.1 Repurchase agreements

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

The following table summarises the liability arising from the short-term repurchase agreement made with domestic banks. The Bank sold BoM bills at face value of MNT 149.66 billion:

	2023 MNT'000	2022 MNT'000
Repurchase agreements	149,611,113	-
	149,611,113	**-**

21.2 Due to banks

	2023 MNT'000	2022 MNT'000
Current accounts from banks and financial institutions	2,002,159	818,747
Term deposits from banks and financial institutions	34,935,260	51,048,233
	36,937,419	**51,866,980**

21.3 Due to customers

	2023 MNT'000	2022 MNT'000
Government deposits		
- Current accounts	65,951,009	34,064,420
- Time deposits	35,196,737	9,596,356
Private sector deposits		
- Current accounts	459,353,656	447,868,305
- Time deposits	215,518,688	115,626,011
Individual deposits		
- Current accounts	177,574,386	169,539,515
- Demand deposits	170,993,684	142,277,593
- Time deposits	1,751,529,139	1,519,647,369
	2,876,117,299	**2,438,619,569**

Included in 'Due to customers' are deposits of MNT 13,264 million (2022: MNT 12,764 million) held as collateral for irrevocable commitments under financial guarantees provided by the Bank as at 31 December 2023.

21. Financial liabilities at amortised cost (Contd.)

21.4 Borrowed funds

	2023 MNT'000	2022 MNT'000
Borrowed funds from foreign financial institutions		
International Finance Corporation ("IFC") (Note 30.c)	271,687,306	17,186,004
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. ("FMO")	231,666,969	111,817,921
BlueOrchard Microfinace Fund	101,745,479	68,331,795
Green Climate Fund ("GCF")	98,972,749	71,555,120
European Bank for Reconstruction and Development ("EBRD") (Note 30.c)	68,891,233	89,029,024
INCOFIN CVSO	67,648,011	57,495,262
Global Climate Partnership Fund S.A., SICAV-SIF	40,041,421	11,682,605
DWM Income Funds S.C.A. - SICAV SIF	34,321,628	17,175,110
Asian Development Bank ("ADB")	29,217,638	58,910,278
Micro, Small and Medium Enterprises Bonds S.A.	24,699,354	24,837,909
Actiam Financial Inclusion Fund	20,661,413	20,631,832
ResponsAbility Global Micro and SME Finance Fund	19,498,506	3,402,369
Covid-19 Emerging and Frontier Markets MSME Support Fund SCSp SICAV-RAIF	16,978,311	17,082,873
Microfinance Initiative for Asia (MIFA) Debt Fund SA, SICAV-SIF	16,978,311	17,082,873
Global Impact Investments Sàrl	16,907,976	-
ResponsAbility SICAV (Lux) Micro and SME Finance Debt Fund	16,419,795	2,093,766
Symbiotics Sicav (Lux)	13,579,773	-
ResponsAbility SICAV (Lux) Financial Inclusion Fund	11,972,767	1,916,264
agRIF Coöperatief U.A.	10,155,933	-
INCOFIN CVSO CVBA SO	10,277,682	-
Symbiotics SICAV II: Impact Local Currencies Debt Fund	6,764,828	-
ResponsAbility SICAV (Lux) Agriculture Fund	3,420,791	-
Symbiotics SICAV (Lux): Abendrot Microfinance Local Currency Fund	1,691,207	-
DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH	-	68,762,672
SIFEM AG	-	34,369,222
Finnish Fund for Industrial Cooperation ltd	-	17,176,241
Baobab Securities Limited	-	5,880,078
Belgian Investment Company for Developing countries NV/SA-BIO	-	2,924,292
ResponsAbility SICAV (Lux) Micro and SME Finance Leaders	-	1,306,544
Total borrowed funds from foreign financial institutions	**1,134,199,081**	**720,650,054**
Borrowed funds from government organisations		
BoM	96,602,160	128,455,461
Ministry of Finance/ Japan Bank for International Cooperation	6,905,535	6,345,413
SME Development Fund	711,597	904,497
Ministry of Finance - Asian Development Bank	350,222	1,003,859
International Fund for Agriculture Development	-	3,943
Total borrowed funds from government organisations	**104,569,514**	**136,713,173**
Total borrowed funds	**1,238,768,595**	**857,363,227**

21. Financial liabilities at amortised cost (Contd.)

21.4 Borrowed funds (Contd.)

All borrowed funds from government organisations are related to the GoM.

The Bank did not have any defaults on principal or interest payments with regard to all liabilities as at 31 December 2023 and 2022.

As per their debt agreement, the funds raised from foreign lenders require compliance with certain financial covenants, which can be grouped in the following categories:

- capital related ratios (risk weighted capital adequacy ratio for both tier 1 and total capital)
- financial risks related ratios (such as maturity mismatches, currency mismatches, single currency and aggregate foreign currency exchange risk ratio, negative liquidity gap ratio, aggregate interest rate risk ratio and interest rate risk ratio);
- credit related ratios (such as portfolio at risk, open loan exposure ratio, write off ratio, related party lending ratio, single largest borrowers and aggregate of large exposures ratio);
- other financial ratios (deposits to loans ratio, interest coverage ratio, shareholding in single entity, fixed assets to total assets, fixed assets plus equity investments ratio, overhead ratio etc.).

In case of non-compliance to covenants, i.e., in the event of default and such event of default is subsisting, the borrowing becomes immediately payable on demand. For this reason, continuous monitoring of debt covenants is carried out by relevant departments and officers (Financial Management Departement, Risk Management Division and Credit Administration Department direct reporting units of Chief Financial Officer and Chief Risk Officer). In case of anticipated or noted non-compliance with certain covenants, appropriate pro-active communication to lender as well as mitigating action is taken by management. The issue of covenant non-compliance is resolved through self-remedy based on mitigating actions or through acceptance of the breaches based either on request for temporary waiver or amendment to agreement.

As of 31 December 2023, the Bank is fully compliant with contractual debt covenants imposed by foreign lenders.

22. Deferred grants

	2023 MNT'000	2022 MNT'000
Micro Energy Credit Corporation ("MEC")	8,416,973	3,493,328
GCF Proceeds EECLP	3,450,049	3,063,445
Green Climate Fund Grant on MSME program	629,793	730,363
Green Climate Fund Proceeds	20,568	125,740
GCF Grant on ESIMD-RS	19,934	324,269
GCF Grant on Mini-grid PPF	15,648	142,145
GCF Grant on NDA RS-2	11,992	12,112
GCF Grant on MGFC-PPF	-	79,304
Total deferred grants	**12,564,957**	**7,970,706**

Movements in deferred grants are presented as follows:

	2023 MNT'000	2022 MNT'000
Balance at beginning of the year	7,970,706	9,243,242
Received during the year	5,884,213	234,101
Amortisation for the year	(1,129,888)	(1,506,637)
Foreign exchange movement	(160,074)	-
Balance at end of the year	**12,564,957**	**7,970,706**

Deferred grants received from MEC are carbon offset compensations which the Bank is obligated to use for future green projects and programs.

23. Lease liabilities

	2023 MNT'000	2022 MNT'000
Less than 12 month	3,493,085	2,279,980
1 to 2 years	3,070,720	1,756,826
2 to 3 years	839,156	830,955
3 to 4 years	167,820	442,331
4 to 5 years	104,828	-
	7,675,609	**5,310,092**

24. Other liabilities

	2023 MNT'000	2022 MNT'000
Other financial liabilities		
Clearing settlement	62,329,803	19,591,381
Other financial liabilities	17,139,135	12,007,474
Impairment allowance on off-balance exposures (Note 28)	282,509	220,871
	79,751,447	**31,819,726**
Other non-financial liabilities		
Accrued salary costs and bonuses	26,237,250	19,419,178
VAT payables	23,134,525	15,774,038
Taxes payable other than on income tax	718,836	163,492
Other non-financial liabilities	1,750,458	1,305,972
	51,841,069	**36,662,680**
Total other liabilities	**131,592,516**	**68,482,406**

Impairment allowance on off-balance exposures

	2023 MNT'000	2022 MNT'000
At beginning of the year	220,871	354,895
Charge/(reversal) for the year (Note 9)	61,638	(134,024)
At end of the year	**282,509**	**220,871**

25. Ordinary shares

	Number of shares authorised, issued and fully paid		Amount	
	31 December 2023	31 December 2022	31 December 2023 MNT'000	31 December 2022 MNT'000
Total ordinary shares	1,052,700,000	1,000,000,000	105,270,000	100,000,000

In accordance with "The Law on Amendment to the Banking Law of Mongolia", passed on the 29 January 2021 by the Parliament, and "The Law on Procedures for Enforcing the Law on Banking Law Amendments", the systemic five banks are obliged to restructure its form from a limited liability company to an open joint-stock company by the 30 June 2023. In accordance with the Shareholders Meeting's decision, the Bank has offered 52,700,000 new shares in the share capital of the Bank, representing 5.01% percent of the fully-diluted share capital of the Bank. The Bank raised MNT 35.68 billion of gross proceeds from the offering of ordinary shares. An incremental costs directly attributable to the initial public offering of MNT 1.64 billion was recorded as a reduction against the share proceeds in equity.

As at 31 December 2023, the Bank has 1,052,700,000 issued shares (2022: 1,000,000,000) at a par value of MNT 100.00 (2022: MNT 100.00 each).

The table below shows movements of share capital on 31 December, 2023:

	Number of ordinary shares	Ordinary shares MNT'000	Share premium MNT'000
At 1 January 2023	**1,000,000,000**	**100,000,000**	**1,817,773**
New shares issued	52,700,000	5,270,000	28,768,995
At 31 December 2023	**1,052,700,000**	**105,270,000**	**30,586,768**

25. Ordinary shares (Contd.)

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

	2023 Ownership (%)	2022 Ownership (%)
Tenger Financial Group LLC*	94.99%	100.00%
Public	5.01%	-
Total	**100.00%**	**100.00%**

*As of 31 December 2023, XacBank JSC is owned 94.99% by Tenger Financial Group LLC. Indirect shareholding of XacBank JSC by Tenger Financial Group LLC's shareholders are shown as per below:

Tenger Financial Group LLC's shareholders	Ownership (%)
MAK Invest Kft	19.37%
International Finance Corporation (IFC)	16.63%
ORIX Corporation	16.28%
European Bank for Reconstruction and Development (EBRD)	12.49%
National Bank of Canada	10.18%
Ronoc Partners Kft.	9.83%
Mongolia Financial Services Pte. Ltd	6.41%
Triodos Fair Share Fund	3.61%
Boldoo Magvan	0.10%
Ganbold Chuluun	0.09%
Total	**94.99%**

The Bank has one class of shares and each share carries one voting right. The dividend proposed by the board of directors is subject to approval by the shareholder in the annual general meeting.

26. Reserves

	Regulatory reserve MNT'000	Revaluation reserve for premises MNT'000	Investment revaluation reserve MNT'000	Other reserves* MNT'000	Total reserves MNT'000
At 1 January 2023	**62,820,179**	**18,528,613**	**2,919,903**	**11,439,408**	**95,708,103**
Unrealised gain	-	-	277,438	-	277,438
Transfer to/(from) regulatory reserve	(9,566,635)	-	-	-	(9,566,635)
At 31 December 2023	**53,253,544**	**18,528,613**	**3,197,341**	**11,439,408**	**86,418,906**
At 1 January 2022	**52,568,719**	**18,528,613**	**2,065,673**	**11,439,408**	**84,602,413**
Unrealised gain	-	-	854,230	-	854,230
Transfer to/(from) regulatory reserve	10,251,460	-	-	-	10,251,460
At 31 December 2022	**62,820,179**	**18,528,613**	**2,919,903**	**11,439,408**	**95,708,103**

Regulatory reserve

As of 31 December 2023, the regulatory reserve was MNT 53,254 million (31 December 2022: MNT 62,820 million) which consists of loan loss reserve of MNT 43,231 million (31 December 2022: MNT 31,809 million) and foreclosed asset impairment reserve of MNT 9,291 million (31 December 2022: MNT 31,011 million) and general reserves of MNT 732 million (31 December 2022: Nil). Regulatory reserve represents additional provision under BoM provisioning requirements on loans and foreclosed assets.

27. Fair value of financial instruments

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Recurring fair value measurement			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2023	**MNT'000**	**MNT'000**	**MNT'000**	**MNT'000**
Financial assets at FVTPL				
Derivative financial instruments				
Cross currency interest rate swap	-	56,789,344	-	56,789,344
Foreign currency forward contracts	-	11,574	-	11,574
MIK-Senior RMBS	-	-	49,141,819	49,141,819
MIK-Junior RMBS	-	-	59,768,115	59,768,115
SFC-Junior ABS	-	-	1,399,212	1,399,212
Loans and advances to customers	-	93,116,520	-	93,116,520
	-	**149,917,438**	**110,309,146**	**260,226,584**
Financial investments at FVTOCI				
Unquoted equities	-	-	418,544	418,544
Quoted equities	4,633,662	-	-	4,633,662
	4,633,662	**-**	**418,544**	**5,052,206**
Financial liabilities at FVTPL				
Derivative financial instruments				
Cross currency interest rate swap	-	14,096,897	-	14,096,897
Foreign currency forward contracts	-	235,218	-	235,218
	-	**14,332,115**	**-**	**14,332,115**
Non-financial assets				
Revalued premises	-	-	38,355,150	38,355,150
	-	**-**	**38,355,150**	**38,355,150**
At 31 December 2022				
Financial assets at FVTPL				
Derivative financial instruments				
Cross currency interest rate swap	-	107,798,730	-	107,798,730
MIK-Senior RMBS	-	-	29,528,142	29,528,142
MIK-Junior RMBS	-	-	49,609,271	49,609,271
SFC-Junior ABS	-	-	4,759,752	4,759,752
Loans and advances to customers	-	102,764,818	-	102,764,818
	-	**210,563,548**	**83,897,165**	**294,460,713**
Financial investments at FVTOCI				
Unquoted equities	-	-	415,108	415,108
Quoted equities	4,267,181	-	-	4,267,181
	4,267,181	**-**	**415,108**	**4,682,289**
Financial liabilities at FVTPL				
Derivative financial instruments				
Cross currency interest rate swap	-	1,639,595	-	1,639,595
	-	**1,639,595**	**-**	**1,639,595**
Non-financial assets				
Revalued premises	-	-	37,688,109	37,688,109
	-	**-**	**37,688,109**	**37,688,109**

27. Fair value of financial instruments (Contd.)

Transfers between level 1 and 2

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

The following table summarises information about how the fair values of financial assets and financial liabilities (both recurring and non-recurring) which are categorised as Level 2 and Level 3 are determined:

Financial assets/ financial liabilities	Fair value as at 31/12/2023 MNT'000	Fair value as at 31/12/2022 MNT'000	Fair value hierarchy	Valuation technique(s)	Key input(s)
1) Foreign currency forward contracts	(223,644)	-	Level 2	Market value, Interest rate parity	Repo rate, government bonds yield and spot exchange rate
2) Cross currency interest rate swap	42,692,447	106,159,135	Level 2	Market value	SOFR rate, policy rate and spot exchange rate
3) MIK-Senior and MIK-Junior RMBS and SFC-Junior ABS	110,309,146	83,897,165	Level 3	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments
4) Unquoted equities	418,544	415,108	Level 3	Net assets value	Market share price, transaction price
5) Loans and advances to customers	93,116,520	102,764,818	Level 2	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments
6) Revalued premises	38,355,150	37,688,109	Level 3	Depreciated replacement cost, market comparison	Market rental prices with appropriate adjustments

Financial assets and liabilities are categorised under level 2 where the Bank determined the fair value based on valuation technique (eg. discounted cash flow model) using market observable inputs.

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

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

27. Fair value of financial instruments (Contd.)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, time deposits and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia.

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments other than those with carrying amounts that approximate to fair value as at 31 December 2023:

	Note	2023 Carrying amount MNT'000	2023 Fair value MNT'000	2022 Carrying amount MNT'000	2022 Fair value MNT'000
Financial assets					
Loans and advances to customers	**16.4**	2,627,234,410	2,640,715,754	1,900,052,627	1,906,438,599
Financial liabilities					
Borrowed funds	**21.4**	1,238,768,595	1,234,908,415	857,363,227	856,968,758

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

	Note	2023 MNT'000	2022 MNT'000
Senior RMBS, at fair value			
At beginning of the year		29,528,142	32,707,952
Addition		89,499,600	43,626,900
Sold		(69,783,600)	(48,629,600)
Interest accrued	**6**	3,827,812	1,952,120
Interest received		(3,831,555)	(154,244)
Change in fair value	**6**	(98,580)	25,014
At end of the year	**14.1**	**49,141,819**	**29,528,142**
Junior RMBS, at fair value			
At beginning of the year		49,609,271	42,554,601
Addition		9,944,500	4,847,600
Interest accrued	**7**	5,213,724	4,513,703
Interest received		(4,623,999)	(1,118,387)
Change in fair value	**7**	(375,381)	(1,188,246)
At end of the year	**14.1**	**59,768,115**	**49,609,271**
SFC-Junior ABS, at fair value			
At beginning of the year		4,759,752	1,026,400
Addition	**13.3**	-	2,809,800
Transfer from senior to junior tranche	**13.3**	-	1,037,200
Sold		(3,465,500)	-
Interest accrued	**7**	392,250	205,980
Interest received		(432,890)	(138,089)
Change in fair value	**7**	145,600	(181,539)
At end of the year	**14.1**	**1,399,212**	**4,759,752**

27. Fair value of financial instruments (Contd.)

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

	Note	2023 MNT'000	2022 MNT'000
Unquoted investments, at fair value			
At beginning of the year		415,108	455,988
Change in fair value		3,436	(40,880)
At end of the year	**15**	**418,544**	**415,108**
Revalued premises, at fair value			
At beginning of the year		37,688,109	36,502,954
Additions and reclassifications	**19**	1,489,847	2,433,160
Depreciation charge for the period	**19**	(822,806)	(747,612)
Transfer to property held for sale	**19**	-	(500,393)
At end of the year		**38,355,150**	**37,688,109**

The sensitivity to reasonably possible changes to input used in the fair value measurement for level 3 measurement is described below:

31 December 2023	Fair value MNT'000	Reasonable change	Sensitivity of the input to fair value MNT'000	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
MIK-Junior RMBS, at fair value	59,768,115	1%	+/- 597,681	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments	MNT 100,000
MIK-Senior RMBS, at fair value	49,141,819	1%	+/- 491,418	Discounted cash flows	Future cash flows, and market interest rate of instruments	MNT 100,000
SFC-Junior ABS, at fair value	1,399,212	1%	+/- 13,992	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments	MNT 100,000
Unquoted investments	418,544	10%	+/- 41,854	Net assets value	Market share price, transaction price	MNT 1,000-MNT 8,176,139
Revalued premises	38,355,150	10%	+/- 3,835,515	Depreciated replacement cost, market comparison	Market rental prices with appropriate adjustments	MNT 25,240-MNT 6,245,455

28. Contingent liabilities and commitments

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

The nominal values of such commitments are listed below.

	2023 MNT'000	2022 MNT'000
Contingent liabilities		
Financial guarantees	37,792,391	12,237,214
Performance and tender guarantees	29,971,282	27,047,137
Letters of credit	27,914,142	29,619,761
	95,677,815	68,904,112
Commitments		
Undrawn commitments to lend	101,212,803	67,877,920
Total	**196,890,618**	**136,782,032**

Contingent liabilities

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.

Undrawn commitments to lend

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

The potential credit loss is less than the total unused commitments since commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Analysis of the contingent liabilities and undrawn commitments subject to ECL loss allowance is given below:

As at 31 December 2023	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
As at 31 December 2022	**136,524,374**	**151,031**	**106,627**	**136,782,032**
New facilities granted	129,182,432	-	-	129,182,432
Changes in gross carrying amount				
- Transfer from stage 1	(3,925,359)	3,902,433	22,926	-
- Transfer from stage 2	21,171	(21,171)	-	-
- Transfer from stage 3	9,368	-	(9,368)	-
Utilisation or expiry of facilities	(68,887,311)	(90,554)	(95,981)	(69,073,846)
Gross outstanding exposure as at 31 December 2023	**192,924,675**	**3,941,739**	**24,204**	**196,890,618**
Loss allowance				
As at 31 December 2022	**201,752**	**373**	**18,746**	**220,871**
New facilities granted	185,593	-	-	185,593
Changes in gross carrying amount				
- Transfer from stage 1	(11,562)	6,211	5,351	-
- Transfer from stage 2	9	(12)	3	-
- Transfer from stage 3	3,816	237	(4,053)	-
Utilisation or expiry of facilities	(105,977)	13,567	(14,377)	(106,787)
Impact on ECL on transfers between stages and changes to inputs	(18,919)	(2,141)	3,892	(17,168)
Gross outstanding exposure as at 31 December 2023	**254,712**	**18,235**	**9,562**	**282,509**

28. Contingent liabilities and commitments (Contd.)

Analysis of the contingent liabilities and undrawn commitments subject to ECL loss allowance is given below (Contd.):

As at 31 December 2022	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
As at 31 December 2021	**161,671,921**	**1,302,439**	**36,510**	**163,010,870**
New facilities granted	72,792,784	-	-	72,792,784
Changes in gross carrying amount				
- Transfer from stage 1	(212,062)	102,071	109,991	-
- Transfer from stage 2	20,712	(20,712)	-	-
- Transfer from stage 3	19,071	-	(19,071)	-
Utilisation or expiry of facilities	(97,768,052)	(1,232,767)	(20,803)	(99,021,622)
Gross outstanding exposure as at 31 December 2022	**136,524,374**	**151,031**	**106,627**	**136,782,032**
Loss allowance				
As at 31 December 2021	**332,178**	**10,877**	**11,840**	**354,895**
New facilities granted	114,405	-	-	114,405
Changes in gross carrying amount				
- Transfer from stage 1	(14,974)	359	14,615	-
- Transfer from stage 2	40	(40)	-	-
- Transfer from stage 3	2,101	-	(2,101)	-
Utilisation or expiry of facilities	(224,424)	(10,836)	(7,469)	(242,729)
Impact on ECL on transfers between stages and changes to inputs	(7,574)	13	1,861	(5,700)
Gross outstanding exposure as at 31 December 2022	**201,752**	**373**	**18,746**	**220,871**

Other commitments

	2023 MNT'000	2022 MNT'000
Approved and contracted for:		
Intangible assets	1,567,714	2,541,093
Property and equipment	1,275,947	2,438,977
Outside services	146,138	591,680
Advertisement	380,316	209,591
Consumables and other inventories	170,379	173,611
Other services	259,064	85,255
	3,799,558	**6,040,207**

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claim may have on its financial position.

At 31 December 2023, there were no major litigation cases involving the Bank.

29. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 31.3 Liquidity risk and funding management for the Bank's contractual undiscounted repayment obligations.

At 31 December 2023	Less than 12 months 2023 MNT'000	More than 12 months 2023 MNT'000	Total 2023 MNT'000
Financial assets			
Cash and balances with BoM	358,359,279	-	358,359,279
Mandatory cash balances with BoM	-	239,378,375	239,378,375
Financial instruments at FVTPL			
Derivative financial instruments	50,246,921	6,553,997	56,800,918
Financial instruments	-	110,309,146	110,309,146
Loans and advances to customers	3,459,284	89,657,236	93,116,520
Financial assets at FVTOCI			
Equity instruments	-	5,052,206	5,052,206
Financial assets at amortised cost			
Due from banks	393,769,064	-	393,769,064
Reverse repurchase agreements	99,740,669	-	99,740,669
Debt instruments	960,070,624	-	960,070,624
Loans and advances to customers	1,131,689,669	1,495,544,741	2,627,234,410
Other assets	28,202,573	3,888,510	32,091,083
	3,025,538,083	**1,950,384,211**	**4,975,922,294**
Non financial assets			
Other assets	39,091,626	94,439	39,186,065
Properties held for sale	1,387,250	-	1,387,250
Property, equipment and right-of-use assets	-	75,388,849	75,388,849
Intangible assets	-	18,667,114	18,667,114
Deferred tax asset	7,037,623	1,832,446	8,870,069
	47,516,499	**95,982,848**	**143,499,347**
Total	**3,073,054,582**	**2,046,367,059**	**5,119,421,641**
Financial liabilities			
Financial instruments at FVTPL			
Derivative financial instruments	1,291,776	13,040,339	14,332,115
Financial liabilities at amortised cost			
Repurchase agreements	149,611,113	-	149,611,113
Due to banks	36,937,419	-	36,937,419
Due to customers	2,027,428,044	848,689,255	2,876,117,299
Borrowed funds	285,842,176	952,926,419	1,238,768,595
Lease liabilities	3,799,226	3,876,383	7,675,609
Other liabilities	46,821,011	32,930,436	79,751,447
	2,551,730,765	**1,851,462,832**	**4,403,193,597**
Non financial liabilities			
Deferred grants	12,564,957	-	12,564,957
Other liabilities	50,902,224	938,845	51,841,069
Income tax payable	29,759,280	-	29,759,280
	93,226,461	**938,845**	**94,165,306**
Total	**2,644,957,226**	**1,852,401,677**	**4,497,358,903**
Net position	**428,097,356**	**193,965,382**	**622,062,738**

29. Maturity analysis of assets and liabilities (Contd.)

At 31 December 2022	Less than 12 months 2022 MNT'000	More than 12 months 2022 MNT'000	Total 2022 MNT'000
Financial assets			
Cash and balances with BoM	431,341,650	-	431,341,650
Mandatory cash balances with BoM	-	255,682,837	255,682,837
Financial instruments at FVTPL			
Derivative financial instruments	50,664,387	57,134,343	107,798,730
Financial instruments	-	83,897,165	83,897,165
Loans and advances to customers	2,506,535	100,258,283	102,764,818
Financial assets at FVTOCI			
Equity instruments	-	4,682,289	4,682,289
Financial assets at amortised cost			
Due from banks	282,232,458	-	282,232,458
Debt instruments	596,387,687	-	596,387,687
Loans and advances to customers	932,064,071	967,988,556	1,900,052,627
Other assets	13,960,332	2,069,252	16,029,584
	2,309,157,120	**1,471,712,725**	**3,780,869,845**
Non financial assets			
Other assets	55,403,263	94,439	55,497,702
Properties held for sale	2,063,167	-	2,063,167
Property, equipment and right-of-use assets	-	68,221,257	68,221,257
Intangible assets	-	18,895,588	18,895,588
Deferred tax asset	-	5,232,744	5,232,744
	57,466,430	**92,444,028**	**149,910,458**
Total	**2,366,623,550**	**1,564,156,753**	**3,930,780,303**
Financial liabilities			
Financial instruments at FVTPL			
Derivative financial instruments	-	1,639,595	1,639,595
Financial liabilities at amortised cost			
Due to banks	51,866,980	-	51,866,980
Due to customers	1,694,763,946	743,855,623	2,438,619,569
Borrowed funds	277,783,253	579,579,974	857,363,227
Lease liabilities	2,279,980	3,030,112	5,310,092
Other liabilities	24,341,800	7,477,926	31,819,726
	2,051,035,959	**1,335,583,230**	**3,386,619,189**
Non financial liabilities			
Deferred grants	7,970,706	-	7,970,706
Other liabilities	34,368,980	2,293,700	36,662,680
Income tax payable	23,840,068	-	23,840,068
	66,179,754	**2,293,700**	**68,473,454**
Total	**2,117,215,713**	**1,337,876,930**	**3,455,092,643**
Net position	**249,407,837**	**226,279,823**	**475,687,660**

30. Related party disclosures

The Bank is controlled by TenGer Financial Group LLC. TenGer Financial Group LLC is owned by the shareholders detailed in Note 1 (Corporate Information).

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions.

As at 31 December 2023 and 2022, the Bank had the following balances and transactions with related parties.

	2023 MNT'000	2022 MNT'000
a) Loans and advances to related companies:		
Shareholders of holding company	18,900	8,619
	18,900	**8,619**
Members of the Board of Directors and key management personnel of the Bank	1,591,672	1,409,228
Other related parties	245,182	101,131
	1,855,754	**1,518,978**

The loans and advances to related parties are secured, bear interest rates from 3.0% to 22.56% (2022: 3.0% to 22.56%) per annum and are repayable within one to 25 years. The interest income received from such loans during the financial year amounted to MNT 90 million (2022: MNT 120 million).

	2023 MNT'000	2022 MNT'000
b) Deposits from related companies:		
Holding company	1,307,189	22,527,694
Shareholders of holding company	488,864	191,078
	1,796,053	**22,718,772**
Members of the Board of Directors and key management personnel of the Bank	8,198,311	8,776,961
Other related parties	47,786,402	47,580,496
	57,780,766	**79,076,229**

The deposits from the above related parties bear interest rates from 0% to 12.0% (2022: 0% to 12.0%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT 833 million (2022: MNT 322 million).

	2023 MNT'000	2022 MNT'000
c) Loans from related companies:		
Shareholders of holding company		
International Finance Corporation (Note 21.4)	271,687,306	17,186,004
European Bank for Reconstruction and Development (Note 21.4)	68,891,233	89,029,024
	340,578,539	**106,215,028**

The loans from the above shareholders of TenGer Financial Group LLC bear interest rates from 1.636% to 17.23% (2022: 1.636% to 17.23%) per annum. The interest expenses paid on such loans during the financial year amounted to MNT 23,733 million (2022: MNT 3,348 million).

30. Related party disclosures (Contd.)

	2023 MNT'000	2022 MNT'000
d) Contingent liabilities and commitments:		
Shareholders of holding company	81,070	91,369
	81,070	**91,369**
Members of the Board of Directors and key management personnel of the Bank	98,574	86,832
Other related parties	141,208	556,262
	320,852	**734,463**
e) Commission income from related companies:		
Holding company	4,982	2,125
Fellow subsidiaries	-	1,392
Shareholders of holding company	381	953
	5,363	**4,470**
Members of the Board of Directors and key management personnel of the Bank	10,843	3,114
Other related parties	15,785	6,148
	31,991	**13,732**
f) Contract fee paid to related companies:		
Fellow subsidiaries	-	272,607
g) Rental income from related companies:		
Fellow subsidiaries	-	13,545
h) Insurance brokerage income from related companies:		
Fellow subsidiaries	-	543,504
i) Claims income from related companies:		
Fellow subsidiaries	-	6,968
j) Compensation of key management personnel:		
Salaries and bonuses	16,756,659	15,179,193
Contribution to social and health fund	2,081,025	1,886,688
	18,837,684	**17,065,881**

Terms and conditions of transactions with related parties

The above mentioned transactions and outstanding balances arose in the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances except for loans and advances to related parties at the period-end are unsecured. The loans and advances are secured by future lease assets, other current assets and properties. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2023, the Bank has made impairment allowance in the amount of MNT 7.8 million (2022: MNT 9.7 million) relating to amounts owed by related parties.

31. Risk management

31.1 Introduction

Risk Management Approach

The primary function of the Bank's risk management is to advance the Bank's risk and control framework and to establish the risk function as a business enabler while simultaneously fostering three lines of defense. Each line of defense describes a specific set of responsibilities for risk management and controls, as follows:

The First Line of Defense owns and manages risk. It has ownership of and responsibility and accountability for directly assessing, controlling, and mitigating risk within its sight of control;

The Second Line of Defense oversees risk. It sets the risk management framework, policies and procedures, challenges risk limits and sets risk appetite, and monitors risk exposure. As such, the Second Line of Defense monitors the design and operation of the First Line of Defense's controls, as well as provides advice and guidance on an ongoing basis; and

The Third Line of Defense provides independent assurance. The independent audit function will provide the Board with assurance of the risk-based approach, covering how effectively the Bank assess and manages its risk profile and assessing the effectiveness of the first and second lines of defense.

Risk Governance and Committees

The ultimate responsibility for setting the Bank's risk appetite and effectively managing risks rests with the Board of Directors. The Board of Directors delegated its responsibility to the Board Risk Management Committee.

The key governance committees are:

- **The Board Risk Management Committee** provides ultimate oversight and independent on risk matters on behalf of the Board of Directors. Its responsibilities include approving the Bank's Risk Management Framework, reviewing the appropriateness and effectiveness of the Bank's risk management approach and risk controlling, including the approval of material credit exposure and ratification of write-off decisions;
- **The Bank Risk Management Committee** is the management level oversight committee to review, challenge and oversee the risk function, the implementation of the Risk Management Framework and the adherence to the approved risk appetite.
- **The Credit Management Committee** focuses on selected cases, which are either of significant risk or exposure, or cannot be resolved through the delegated authorities between the First and Second Line of Defense; and
- **The Operational Risk Committee** provides oversight over the Bank's control driven Operational Risk Framework and the Operational Risk Acceptance.

Risk Universe

The Bank assumes risk commensurate with its risk appetite. The Bank's risk universe defines those risk types the Bank is likely to face:

- **Credit Risk**, potential for loss due to failure of a counterparty to meet its obligation to pay the Bank in accordance with agreed terms;
- **Credit Concentration Risk**, potential for loss due to excessive credit exposure concentrations;
- **Market Risk**, potential for loss of earnings or economic value due to adverse changes in financial markets and/or prices;
- **Capital Risk**, potential inability to conduct business due to limited capitalization or short-fall against regulatory capitalization requirements, without incurring acceptable losses;
- **Liquidity Risk**, potential inability to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses;
- **Operational Risk** (including fraud), potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks;
- **Information Security Risk**, potential for harm or loss resulting from breaches of or attacks on information systems or loss of information;
- **Conduct Risk**, potential for loss resulting from delivery of unfair customer outcomes and/or breaches of the Bank's code of conduct;
- **Compliance Risk**, potential for loss resulting for failed compliance;
- **Reputational Risk**, potential for damage to the Bank's brand and reputation, resulting in loss of earnings; and
- **Strategic Risk**, potential for opportunity loss from failure to optimize the earnings potential of the Bank's business model.

31. Risk management (Contd.)

31.1 Introduction (Contd.)

Risk Appetite, Stress Testing and Risk Reporting

The Bank's Risk Appetite is reflected through the Bank's risk appetite statement, which complements the Bank's business plan. The Bank differentiates:

- **Risk Appetite**, which defines the amount of risk the Bank is willing to take in pursuit of the Bank's business model;
- **Risk and Exposure Limits**, which implement the Bank's Risk Appetite, for example through credit exposure limits or credit concentration limits
- **Risk Capacity**, which defines the amount of risk the Bank is able to take within its regulatory constraints; and
- **Stress Performance**, which defines the acceptable financial performance under predefined levels of stress.

The Bank's Risk Function periodically monitors the compliance against its risk appetite. Bespoke scenarios are applied to assess the Bank's financial performance under a mild and severe recession scenario. The Bank reviews alternative scenarios to assess the resilience of its business model. The alternative scenarios are complemented through a comprehensive contingent risk analysis.

31.2 Credit risk

The Bank's credit risk policy defines the framework for managing the Bank's credit risk. It describes the principles and basic practices to prudently manage credit risk in accordance with the approved credit risk appetite and in accordance with risk capacity and respective laws and applicable regulations of Mongolia.

Under the Bank's credit risk management framework, the business has ownership of and accountability for selecting customers, suggesting appropriate loan products including terms and conditions, assessing customer's ability to service debt, valuing collaterals, collecting, monitoring and reviewing the loans, detecting early warning signals, and taking appropriate measurements.

While the risk function sets credit related policies and procedures, challenges credit risk limits and sets credit risk appetite, and monitors credit risk exposures. It performs the ongoing monitoring of the design and operation of controls, as well as providing advice and guidance.

In accordance with the IFRS 9 standards, the Bank's credit risk disclosures reflect the expected credit loss (ECL) of the financial assets, measured on a collective and individual basis for financial assets.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on financial assets that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated semi-annually with each portfolio receiving a separate review by the management.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of impairment in an individual assessment. ECL are estimated by taking into consideration of the probability of default (PD) and loss given defaults (LGD), as per each loan stage, adjusted by the probability weighted macroeconomic scenarios.

The Bank assumes probability weights for the next 12 months, considering the current economic condition and growth outlooks. Given the high correlation between the GDP growth and the probability of defaults, weighted PD/LGDs reflect the forward-looking macroeconomic situation.

The Bank's definitions for loan stages are as follows:

Stage 1: Good Credit Quality Exposure is determined as "Normal" in BoM's assessment and loans that are overdue until 30 days past due. For these loans, 12-month ECL are recognized;

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

Collectively assessed allowances (Contd.)

Stage 2: Deteriorating Credit Quality Exposure is determined as loans that are overdue from 31 days to 90 days, restructured loans and internally assessed "watch-listed" performing loans. For these assets, lifetime ECL are recognized; and

Stage 3: Low Credit Quality Exposure, identified as "Non-performing" in BoM's regulation, including substandard, doubtful and bad loans. For these assets, lifetime ECL are recognized.

The impairment allowance is then reviewed by Chief Risk Officer and Chief Financial Officer to ensure compliance with the Bank's overall policy.

Credit risk stress testing

Our forward-looking macroeconomic model was performed based on the historical data of PD by using the econometrical tools. The data set includes a quarterly time series of leading macro indicators and the probability of default for 2011-2023. Macro variables are taken from the database of the National Statistical Office, and PD is taken from the Bank's internal database. The main macro variables for modelling are selected based on their correlations with PD, which are the highest. After that, the Bank utilizes three macroeconomic scenarios to evaluate a range of possible outcomes. Model and analytics division produces macroeconomic forecasts under a baseline, upside and downside economic scenarios and their weight based on the current and the possible development of the macroeconomic condition.

The stress test was performed in worst, base, and optimistic scenarios by changing the weights of the three macroeconomic condition options which are mentioned above. On the other hand, according to the corresponding scenarios of the stress test, three weights options were selected, a forward-looking PD was obtained, and the stress test results were calculated using ECL calculations.

As for the base case scenario, we have chosen the downside scenario probability to be 30%, the baseline scenario probability to be 60%, and the upside scenario to be 10% based on the international organization's forecasts and internal forecasts that the Mongolian economy to perform ECL calculation. In the worst case scenario, economic growth will be around 2%, with the ECL estimating the downside weight to be 100%. In the optimistic scenario, the Mongolian economic growth is expected to be approximately 8% in 2024 and the ECL estimates the weight of the upside to be 100%.

The below table sets out the results of stress testing (ECL) under three different scenarios including base, upside and downside. The actual figure, or actual LLP as of 31 December 2023 chosen as the baseline scenario.

				MNT'000
Provision	**Loans**	**Leasing**	**Total ECL**	**Changes**
Upside forecast	45,654,867	2,510,780	48,165,647	14,319,954
Baseline forecast	57,414,396	5,071,205	62,485,601	-
Downside forecast	65,594,635	6,995,023	72,589,658	(10,104,057)

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

The tables below analyze the movement of the loss allowance during the year per class of assets.

Due from banks at amortised cost

	2023 Total Stage 1 MNT'000	2022 Total Stage 1 MNT'000
As at 1 January	282,703,763	42,699,616
New financial assets originated or purchased	218,853,689	254,590,292
Payments and assets derecognised	(107,318,873)	(14,586,145)
Gross carrying amount as at 31 December	**394,238,579**	**282,703,763**
Loss allowance		
As at 1 January	471,305	212,338
Charge for the year (Note 9)	-	258,967
Reversal for the year (Note 9)	(1,790)	-
Gross carrying amount as at 31 December	**469,515**	**471,305**

Loans and advances to customers at amortised cost subject to impairment

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2023				
As at 1 January 2023	1,824,344,143	67,371,967	82,870,125	1,974,586,235
New financial assets originated or purchased	1,897,808,524	-	-	1,897,808,524
Transfer from foreclosed properties* (Note 17)	-	-	10,480,120	10,480,120
- Transfer from stage 1	(51,693,534)	34,538,531	17,155,003	-
- Transfer from stage 2	2,718,131	(7,690,813)	4,972,682	-
- Transfer from stage 3	2,071,406	259,357	(2,330,763)	-
Payments and assets derecognised	(1,122,746,487)	(39,630,240)	(26,784,221)	(1,189,160,948)
Written-off	-	-	(3,993,920)	(3,993,920)
Gross carrying amount as at 31 December 2023	**2,552,502,183**	**54,848,802**	**82,369,026**	**2,689,720,011**
Loss allowance				
As at 1 January 2023	11,006,127	15,870,423	47,657,058	74,533,608
New financial assets originated or purchased	12,197,834	-	-	12,197,834
Transfer from foreclosed properties	-	-	4,797,066	4,797,066
- Transfer from stage 1	(3,519,590)	783,626	2,735,964	-
- Transfer from stage 2	929,450	(2,292,475)	1,363,025	-
- Transfer from stage 3	2,588,465	197,774	(2,786,239)	-
Payments and assets derecognised	(5,971,163)	(7,894,891)	(12,342,512)	(26,208,566)
Written-off	-	-	(3,993,920)	(3,993,920)
Impact of exposure change, inputs and models used for ECL calculation	(4,499,736)	(975,560)	6,634,875	1,159,579
Gross carrying amount as at 31 December 2023	**12,731,387**	**5,688,897**	**44,065,317**	**62,485,601**

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

Loans and advances to customers at amortised cost subject to impairment (Contd.)

	Stage 1 12-month MNT'000	Stage 2 Lifetime MNT'000	Stage 3 Lifetime MNT'000	Total MNT'000
As at 31 December 2022				
As at 1 January 2022	1,588,852,051	103,426,821	84,998,104	1,777,276,976
New financial assets originated or purchased	1,130,157,214	-	-	1,130,157,214
- Transfer from stage 1	(55,705,818)	40,473,744	15,232,074	-
- Transfer from stage 2	13,466,437	(29,305,672)	15,839,235	-
- Transfer from stage 3	841,725	20,370	(862,095)	-
Payments and assets derecognised	(853,267,466)	(47,243,296)	(25,338,837)	(925,849,599)
Written-off	-	-	(6,998,356)	(6,998,356)
Gross carrying amount as at 31 December 2022	**1,824,344,143**	**67,371,967**	**82,870,125**	**1,974,586,235**
Loss allowance				
As at 1 January 2022	9,964,637	23,556,994	42,197,584	75,719,215
New financial assets originated or purchased	10,672,557	-	-	10,672,557
- Transfer from stage 1	(5,125,424)	3,590,737	1,534,687	-
- Transfer from stage 2	4,132,834	(11,211,708)	7,078,874	-
- Transfer from stage 3	726,103	16,920	(743,023)	-
Payments and assets derecognised	(4,560,177)	(7,863,639)	(8,440,009)	(20,863,825)
Written-off	-	-	(6,998,356)	(6,998,356)
Impact of exposure change, inputs and models used for ECL calculation	(4,804,403)	7,781,119	13,027,301	16,004,017
Gross carrying amount as at 31 December 2022	**11,006,127**	**15,870,423**	**47,657,058**	**74,533,608**

* On 27 June 2023, the Supreme Court of Mongolia made a decision for the Bank to return the foreclosed property back to a defaulted borrower which was under legal dispute. In accordance with this decision, the Bank has derecognized foreclosed property of MNT 11.6 billion and recognized loans and advances to customers of MNT 10.5 billion in its statement of financial position.

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

Debt instruments at amortised cost

	2023 Total Stage 1 MNT'000	2022 Total Stage 1 MNT'000
As at 1 January	597,688,299	927,907,925
New financial assets originated or purchased	960,398,077	588,620,125
Payments and assets derecognised	(596,892,695)	(918,839,751)
Gross carrying amount as at 31 December	**961,193,681**	**597,688,299**
Loss allowance		
As at 1 January	1,300,612	1,193,410
Charge for the year (Note 9)	1,119,097	1,023,093
Reversal for the year (Note 9)	(1,296,652)	(915,891)
Gross carrying amount as at 31 December	**1,123,057**	**1,300,612**

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

Gross by classes	2023 MNT'000	2022 MNT'000
Loans and advances to customers at amortised cost	2,689,720,011	1,974,586,235
Debt instruments at amortised cost	961,193,681	597,688,299
BoM current accounts and due from banks	924,368,074	869,357,755
Loan commitments	101,212,803	67,877,920
Reverse repurchase agreement	99,751,658	-
Contingent liabilities	95,677,815	68,904,112
Other assets	34,015,617	17,903,231
Total	**4,905,939,659**	**3,596,317,552**

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

Risk concentrations by industry

The table below shows the analysis of the Bank's credit risk concentration per class of financial assets. The amounts in table represent gross carrying amount before taking into account the fair value of the loan collateral held or other credit enhancements.

BoM current accounts and due from banks at amortised cost

Concentration by sector	2023 MNT'000	%	2022 MNT'000	%
Sovereign	735,272,257	79.5	724,717,540	83.4
Banking	189,095,817	20.5	144,640,215	16.6
Total	**924,368,074**	**100.0**	**869,357,755**	**100.0**

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

Loans and advances to customers at amortised cost

Concentration by sector and product	2023 MNT'000	%	2022 MNT'000	%
Consumption	589,824,568	21.8	431,123,320	21.8
Trading	679,264,558	25.3	474,192,770	24.0
Deposit backed	378,730,243	14.1	293,867,803	14.9
Other	269,423,760	10.0	239,129,761	12.1
Production	249,339,476	9.3	129,869,847	6.6
Mortgage	184,367,390	6.9	125,909,041	6.4
Services	141,202,286	5.2	105,457,041	5.3
Construction	118,759,269	4.4	109,762,719	5.6
Mining	57,939,990	2.2	50,574,840	2.6
Agricultural	20,868,471	0.8	14,699,093	0.7
Total	**2,689,720,011**	**100.0**	**1,974,586,235**	**100.0**

Debt instruments at amortised cost

Concentration by sector	2023 MNT'000	%	2022 MNT'000	%
Sovereign	960,398,077	99.9	577,171,150	96.6
Corporate	795,604	0.1	20,517,149	3.4
Total	**961,193,681**	**100.0**	**597,688,299**	**100.0**

Loan commitments

Concentration by sector	2023 MNT'000	%	2022 MNT'000	%
Retail				
Micro business loan	12,966,299	12.8	11,230,127	16.5
Business loan	21,712,598	21.5	7,589,537	11.2
Unsecured loan	11,620,775	11.4	8,358,818	12.3
SME and Corporate				
Trading	31,456,887	31.1	23,542,767	34.7
Production	16,203,638	16.0	3,671,717	5.4
Construction	22,664	-	1,382,731	2.0
Other	3,801,645	3.8	248,910	0.4
Services	-	-	1,355,719	2.0
Mining	3,428,297	3.4	10,497,594	15.5
Total	**101,212,803**	**100.0**	**67,877,920**	**100.0**

Financial guarantees (un-funded)

Guarantees	2023 MNT'000	%	2022 MNT'000	%
Trading	33,212,553	34.7	10,552,601	15.3
Production	6,007,470	6.3	2,310,148	3.4
Construction	14,980,073	15.7	40,186,557	58.3
Mining	2,650,064	2.8	1,141,483	1.7
Services	8,506,735	8.9	4,810,599	7.0
Other	30,127,355	31.4	9,763,536	14.1
Agricultural	193,565	0.2	139,188	0.2
Total	**95,677,815**	**100.0**	**68,904,112**	**100.0**

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

Collateral and other credit enhancements

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty and the type of loan granted. The Bank's credit risk policy stipulates the eligible collaterals and loan acceptance to collateral value.

The main types of the Bank's eligible collaterals obtained are as follows:
(i) For immovable assets, the buildings, facilities, affordable houses and lands
(ii) For movable assets, the vehicles, equipment, cash, animals, inventory, future guaranteed funds and intangible assets.

The Bank performs physical inspection of the collateral and regularly monitors the market value of collateral, requests additional collateral in accordance with underlying agreement, and monitors the market value of collateral obtained during its review of adequacy of the allowance for impairment losses.

Type of collateral or credit enhancements	Fair value of collateral and credit enhancements held										
31 December 2023	**Maximum exposure to credit risk MNT'000**	**Property MNT'000**	**Goods in turnover MNT'000**	**Vehicles MNT'000**	**Cash deposits MNT'000**	**Equipment MNT'000**	**Other MNT'000**	**Total collateral MNT'000**	**Net exposure MNT'000**	**% of exposure subject to collateral requirements**	**Associa-ted ECL MNT'000**
Loans and advances to customers											
Corporate lending	476,002,363	644,273,937	365,813,696	66,920,502	2,000,000	26,763,998	-	1,105,772,133	(629,769,770)	232.3%	17,241,593
Small business lending	1,087,756,291	1,559,642,211	158,288,817	690,729,715	7,764,926	21,042,478	1,955,900	2,439,424,047	(1,351,667,756)	224.3%	27,056,693
Consumer lending	941,593,967	26,462,430	120,041	21,450,139	531,561,290	50,003	-	579,643,903	361,950,064	61.6%	12,941,451
Residential mortgages	277,483,910	484,419,961	700	539,793	-	200,900	12,000	485,173,354	(207,689,444)	174.8%	5,245,864
Total	**2,782,836,531**	**2,714,798,539**	**524,223,254**	**779,640,149**	**541,326,216**	**48,057,379**	**1,967,900**	**4,610,013,437**	**(1,827,176,906)**		**62,485,601**
31 December 2022											
Loans and advances to customers											
Corporate lending	424,672,961	610,548,113	336,654,324	57,398,980	-	22,461,697	-	1,027,063,114	(602,390,153)	241.8%	26,746,057
Small business lending	704,288,233	1,216,375,780	100,001,534	490,087,792	6,178,668	21,292,432	1,812,750	1,835,748,956	(1,131,460,723)	260.7%	28,059,956
Consumer lending	719,715,999	33,591,215	213,885	13,322,098	482,293,364	70,703	-	529,491,265	190,224,734	73.6%	12,708,562
Residential mortgages	228,673,860	418,736,616	700	756,000	-	200,900	12,000	419,706,216	(191,032,356)	183.5%	7,019,033
Total	**2,077,351,053**	**2,279,251,724**	**436,870,443**	**561,564,870**	**488,472,032**	**44,025,732**	**1,824,750**	**3,812,009,551**	**(1,734,658,498)**		**74,533,608**

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

Collateral and other credit enhancements (Contd.)

Credit quality per class of financial assets

The Bank uses the basic credit grading approach to categorize exposures according to the risk profiles, as follows:

Credit Grading	Moody's rating	Grade Description
A	Aaa to A3	Excellent
B	Baa1 to B3	Good
C	Caa1 to Caa3	Satisfactory
D	Ca	Monitoring
E	C, D	Impaired

This grading approach uses the risk parameters i.e. repayment pattern, collateral value and credit facility purpose to quantify the risk grade. It allows the management to compare the exposures across all lines of loans and advances to customers.

Apart from using this grading approach, the Bank applies the credit ratings assigned by the international rating agencies to the exposures for due from banks and financial investments.
The Bank does not rate the unquoted financial investments.

The table below shows that all financial assets exposed to credit risk in terms of credit grading. The amounts presented are gross of impairment allowances.

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

Credit quality per class of financial assets (Contd.)

	2023				2022			
Grade	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total MNT'000	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total MNT'000
BoM current accounts and due from banks at amortised cost								
Excellent	798,712,916	-	-	**798,712,916**	743,489,014	-	-	**743,489,014**
Good	125,655,158	-	-	**125,655,158**	125,868,741	-	-	**125,868,741**
Total gross	924,368,074	-	-	**924,368,074**	869,357,755	-	-	**869,357,755**
Loss allowance	(839,265)	-	-	**(839,265)**	(875,401)	-	-	**(875,401)**
Carrying value	**923,528,809**	**-**	**-**	923,528,809	**868,482,354**	**-**	**-**	**868,482,354**
Loans and advances to customers at amortised cost								
Excellent	1,243,906,651	-	-	**1,243,906,651**	715,057,889	-	-	**715,057,889**
Good	191,177,036	-	-	**191,177,036**	208,522,385	-	-	**208,522,385**
Satisfactory	1,076,520,358	-	-	**1,076,520,358**	858,398,911	-	-	**858,398,911**
Monitoring	40,898,138	54,848,802	-	**95,746,940**	42,364,958	67,371,967	-	**109,736,925**
Impaired	-	-	82,369,026	**82,369,026**	-	-	82,870,125	**82,870,125**
Total gross	2,552,502,183	54,848,802	82,369,026	**2,689,720,011**	1,824,344,143	67,371,967	82,870,125	**1,974,586,235**
Loss allowance	(12,731,387)	(5,688,897)	(44,065,317)	**(62,485,601)**	(11,006,127)	(15,870,423)	(47,657,058)	**(74,533,608)**
Carrying value	**2,539,770,796**	**49,159,905**	**38,303,709**	**2,627,234,410**	**1,813,338,016**	**51,501,544**	**35,213,067**	**1,900,052,627**
Debt instruments at amortised cost								
Good	961,193,681	-	-	**961,193,681**	597,688,299	-	-	**597,688,299**
Total gross	961,193,681	-	-	**961,193,681**	597,688,299	-	-	**597,688,299**
Loss allowance	(1,123,057)	-	-	**(1,123,057)**	(1,300,612)	-	-	**(1,300,612)**
Carrying value	**960,070,624**	**-**	**-**	960,070,624	**596,387,687**	**-**	**-**	**596,387,687**
Loan Commitment								
Excellent	46,086,739	-	-	**46,086,739**	8,499,348	-	-	**8,499,348**
Good	5,381,276	-	-	**5,381,276**	3,534,622	-	-	**3,534,622**
Satisfactory	15,357,345	-	-	**15,357,345**	23,432,640	-	-	**23,432,640**
Monitoring	30,479,824	3,883,415	-	**34,363,239**	32,288,265	16,418	-	**32,304,683**
Impaired	-	-	24,204	**24,204**	-	-	106,627	**106,627**
Total gross	97,305,184	3,883,415	24,204	**101,212,803**	67,754,875	16,418	106,627	**67,877,920**
Loss allowance	(169,001)	(18,235)	(9,562)	**(196,798)**	(133,467)	(41)	(18,746)	**(152,254)**
Carrying value	**97,136,183**	**3,865,180**	**14,642**	**101,016,005**	**67,621,408**	**16,377**	**87,881**	**67,725,666**

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

Aging analysis of past due loans by class of financial assets

Loans and advances to customers

	2023 Gross carrying amount MNT'000	2023 Loss allowance MNT'000	2022 Gross carrying amount MNT'000	2022 Loss allowance MNT'000
0-30	35,011,153	1,171,457	51,297,666	1,988,596
31-60	23,912,571	1,722,502	8,161,724	921,484
61-90	4,289,848	2,100,166	8,992,952	2,918,026
91-180	4,402,530	2,243,438	7,255,282	3,974,759
More than 181 days	54,602,851	30,747,041	65,131,906	37,721,405
Total	**122,218,953**	**37,984,604**	**140,839,530**	**47,524,270**

Modified financial assets and liabilities

The following tables refer to modified financial assets and liabilties where modification does not result in derecognition.

	2023 MNT,000	2022 MNT,000
Amortised cost of financial assets modified during the period	-	74,013,699
Amortised cost of financial liabilities modified during the period	-	70,575,049
Net modification loss (Note 9)	-	(2,576,223)

31.3 Liquidity risk

The Bank's liquidity risk refers to potential inability to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The Bank sets risk appetite on the liquidity metrics that should be in place to cover withdrawals at unexpected levels of demand. It is the Bank's policy to maintain a prudent mix of borrowed and core deposit base. In addition, the Bank maintains a statutory deposit with BoM equal to 8% and 18% of customer deposits in local and foreign currency, respectively.

Analysis of financial liabilities by remaining contractual maturities

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

31. Risk management (Contd.)

31.3 Liquidity risk (Contd.)

Analysis of financial liabilities by remaining contractual maturities (Contd.)

Financial liabilities	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total undiscounted financial liabilities MNT'000	Carrying amount MNT'000
At 31 December 2023								
Financial instruments at FVTPL								
Derivative financial instruments	-	235,218	-	1,056,558	13,040,339	-	14,332,115	14,332,115
Financial liabilities at amortised cost								
Repurchase agreements	-	149,660,235	-	-	-	-	149,660,235	149,611,113
Due to banks	36,971,886	6,044	-	-	-	-	36,977,930	36,937,419
Due to customers	983,045,524	239,138,189	249,414,264	600,993,736	385,536,991	1,124,084,973	3,582,213,677	2,876,117,299
Borrowed funds	8,486,140	82,962,535	90,797,867	198,377,916	1,052,363,468	7,024,128	1,440,012,054	1,238,768,595
Lease liabilities	-	876,457	583,288	3,002,603	4,217,559	-	8,679,907	7,675,609
Other liabilities	-	50,682,566	13,133,173	26,249,434	86,906,426	3,158,573	180,130,172	79,751,447
Total	**1,028,503,550**	**523,561,244**	**353,928,592**	**829,680,247**	**1,542,064,783**	**1,134,267,674**	**5,412,006,090**	**4,403,193,597**
At 31 December 2022								
Financial instruments at FVTPL								
Derivative financial instruments	-	-	-	-	1,639,595	-	1,639,595	1,639,595
Financial liabilities at amortised cost								
Due to banks	51,866,980	-	-	-	-	-	51,866,980	51,866,980
Due to customers	869,555,058	166,907,889	246,835,622	438,760,581	293,047,354	955,481,597	2,970,588,101	2,438,619,569
Borrowed funds	-	29,526,433	53,837,263	225,872,419	608,847,192	1,937,576	920,020,883	857,363,227
Lease liabilities	-	582,818	605,464	1,496,086	3,296,059	-	5,980,427	5,310,092
Other liabilities	-	23,165,265	106,284	1,087,506	32,519,614	6,631,834	63,510,503	31,819,726
Total	**921,422,038**	**220,182,405**	**301,384,633**	**667,216,592**	**939,349,814**	**964,051,007**	**4,013,606,489**	**3,386,619,189**
Contingent liabilities and commitments								
At 31 December 2023								
Contingent liabilities (Note 28)	9,645,004	17,474,649	21,108,161	34,856,180	12,593,821	-	95,677,815	95,677,815
Commitments (Note 28)	2,841,000	4,177,668	29,378,878	10,089,163	54,712,094	14,000	101,212,803	101,212,803
Total	**12,486,004**	**21,652,317**	**50,487,039**	**44,945,343**	**67,305,915**	**14,000**	**196,890,618**	**196,890,618**
At 31 December 2022								
Contingent liabilities (Note 28)	23,863,195	18,644,224	10,935,461	10,820,400	4,556,681	84,151	68,904,112	68,904,112
Commitments (Note 28)	1,614,763	1,448,868	16,313,974	16,305,580	32,178,131	16,604	67,877,920	67,877,920
Total	**25,477,958**	**20,093,092**	**27,249,435**	**27,125,980**	**36,734,812**	**100,755**	**136,782,032**	**136,782,032**

31. Risk management (Contd.)

31.4 Market risk

The Bank defines the market risk as potential for loss of earnings or economic value due to adverse changes in financial markets and/or prices. The Bank's financial risk policy is ensure the Bank's financial risks, i.e. market risk, capital risk and liquidity risk are adequately managed and the Bank's capital and liquidity resources are deployed as efficiently and effectively as possible.

Interest Rate Risk

The Bank defines interest rate risk as potential loss due to a negative impact from adverse changes in interest rates and their implied volatility. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Bank's net interest income, while a long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures will be affected. The Bank's Risk Function periodically monitors the compliance against its risk appetite on the Bank's interest rate position.

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

Currency	2023 Change in basis points	2023 Sensitivity of net interest income MNT'000	2022 Change in basis points	2022 Sensitivity of net interest income MNT'000
USD	+120	(138,507)	+120	(1,781,715)
MNT	+120	(2,007,503)	+120	(1,811,986)
USD	-120	138,507	-120	1,781,715
MNT	-120	2,007,503	-120	1,811,986

Foreign Currency Exchange Risk

The Bank defines the foreign currency exchange risk as potential loss due to adverse changes in currency exchange rates and their implied volatility. The Bank sets risk limits on the level of exposure by foreign currencies, which are monitored on a frequent basis against the approved risk appetite. Apart from using foreign exchange exposure mismatch, the Bank uses the Value-at-Risk ("VaR") approach to manage and measure foreign exchange risk.

The VaR approach

The VaR approach is an integral part of the Bank's risk management since March 2007. The VaR approach is designed to measure market risk in a normal market environment. It assumes that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution.

The Bank calculates the VaR losses using a 99% confidence level and a one day holding period. The calculation employs a Variance and Covariance technique and uses one year of historical market data as input variables. The one-day VaR losses are estimated at 99% confidence level, as follows:

Variance/ Covariance

	2023 MNT'000	2022 MNT'000
31st December	82,003	99,866
Average Daily	99,386	102,451
Highest	296,821	435,839
Lowest	9,584	12,332

31. Risk management (Contd.)

31.4 Market risk (Contd.)

Currency Risk (Contd.)

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

Financial assets and financial liabilities	**MNT MNT'000**	**USD MNT'000**	**Euro MNT'000**	**Other MNT'000**	**Total MNT'000**
As at 31 December 2023					
Financial assets					
Cash and balances with BoM	309,389,094	41,208,540	412,438	7,349,207	358,359,279
Mandatory cash balances with BoM	156,408,989	41,144,542	6,361,068	35,463,776	239,378,375
Financial instruments at FVTPL					
Derivative financial instruments*	14,076,452	1,268,000,745	379,166	1,204,415	1,283,660,778
Financial instruments	110,309,146				110,309,146
Loans and advances to customers	93,116,520	-	-	-	93,116,520
Financial assets at FVTOCI					
Equity instruments	5,052,206	-	-	-	5,052,206
Financial assets at amortised cost					
Due from banks	61,007,408	275,177,545	1,871,595	55,712,516	393,769,064
Reverse repurchase agreements	99,740,669	-	-	-	99,740,669
Debt instruments	960,070,624	-	-	-	960,070,624
Loans and advances to customers	2,626,670,357	564,053	-	-	2,627,234,410
Other assets	29,206,131	2,793,473	6,548	84,931	32,091,083
Total financial assets	**4,465,047,596**	**1,628,888,898**	**9,030,815**	**99,814,845**	**6,202,782,154**
Financial liabilities					
Financial instruments at FVTPL					
Derivative financial instruments*	1,201,972,549	15,220,395	-	23,999,031	1,241,191,975
Financial liabilities at amortised cost					
Repurchase agreements	149,611,113	-	-	-	149,611,113
Due to banks	1,010,871	35,851,901	2,947	71,700	36,937,419
Due to customers	2,384,123,117	412,333,492	8,734,726	70,925,964	2,876,117,299
Borrowed funds	93,978,704	1,144,789,891	-	-	1,238,768,595
Lease liabilities	7,675,609	-	-	-	7,675,609
Other liabilities	70,250,418	6,644,768	110,006	2,746,255	79,751,447
Total financial liabilities	**3,908,622,381**	**1,614,840,447**	**8,847,679**	**97,742,950**	**5,630,053,457**
Net position	**556,425,215**	**14,048,451**	**183,136**	**2,071,895**	**572,728,697**

** The figure is shown at gross amount to reflect the actual currency position*

31. Risk management (Contd.)

31.4 Market risk (Contd.)

Currency Risk (Contd.)

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

Financial assets and financial liabilities	**MNT MNT'000**	**USD MNT'000**	**Euro MNT'000**	**Other MNT'000**	**Total MNT'000**
As at 31 December 2022					
Financial assets					
Cash and balances with BoM	129,319,629	228,288,657	8,614,864	65,118,500	431,341,650
Mandatory cash balances with BoM	132,453,741	123,229,096	-	-	255,682,837
Financial instruments at FVTPL					
Derivative financial instruments*	-	760,947,158	-	-	760,947,158
Financial instruments	83,897,165	-	-	-	83,897,165
Loans and advances to customers	102,764,818	-	-	-	102,764,818
Financial assets at FVTOCI					
Equity instruments	4,682,289	-	-	-	4,682,289
Financial assets at amortised cost					
Due from banks	50,379,296	182,892,009	1,452,463	47,508,690	282,232,458
Debt instruments	596,387,687	-	-	-	596,387,687
Loans and advances to customers	1,885,604,954	14,186,924	260,749	-	1,900,052,627
Other assets	14,156,415	1,706,719	32,705	133,745	16,029,584
Total financial assets	**2,999,645,994**	**1,311,250,563**	**10,360,781**	**112,760,935**	**4,434,018,273**
Financial liabilities					
Financial instruments at FVTPL					
Derivative financial instruments*	654,788,023	-	-	-	654,788,023
Financial liabilities at amortised cost					
Due to banks	1,005,841	50,622,074	40,215	198,850	51,866,980
Due to customers	1,826,065,115	514,477,524	10,144,412	87,932,518	2,438,619,569
Borrowed funds	139,389,759	717,973,468	-	-	857,363,227
Lease liabilities	5,310,092	-	-	-	5,310,092
Other liabilities	22,399,523	6,463,747	130,570	2,825,886	31,819,726
Total financial liabilities	**2,648,958,353**	**1,289,536,813**	**10,315,197**	**90,957,254**	**4,039,767,617**
Net position	**350,687,641**	**21,713,750**	**45,584**	**21,803,681**	**394,250,656**

** The figure is shown at gross amount to reflect the actual currency position*

Prepayment effect

Prepayment effect is the financial effect which will be caused by the customers and counterparties that repay or request repayment earlier than expected.

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income.

If 20% of repayable financial instruments were prepaid at the beginning of the year, with all other variables held constant, the profit before tax for the year would be reduced by MNT 21,578 million (2022: MNT 9,189 million).

31.5 Operational risk

The Bank defines the operational risk as potential loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks. The Bank’s operational risk function guides process owners on the definition and implementation of effective controls aimed at prevention, detection, and mitigation of operational risks. Process reviews and controls readings define operational risk ratings which guide the operational risk acceptance and management.

32. Capital adequacy

The Bank actively manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by BoM. During the past year, the Bank complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to the shareholder, return capital to the shareholder or issue new equity or equity related securities.

Regulatory capital

BoM requires commercial banks to maintain a minimum core capital adequacy ratio of 9% (2022: 9%) and risk weighted capital ratio of at least 12% (2022: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank calculated based on the financial results prepared in accordance with IFRS as at 31st December were as follows:

	2023 MNT'000	**2022 MNT'000**
Core capital ratio	20.5%	19.8%
Risk weighted capital ratio	20.5%	19.8%
Tier I capital		
Ordinary shares	105,270,000	100,000,000
Share premium	30,586,768	1,817,773
Other reserves	11,439,408	11,439,408
Retained profits	399,787,064	278,161,784
Adjustment in accordance with BoM regulation	(81,392)	-
Total Tier I Capital	547,001,848	391,418,965
Tier II capital		
Other	-	-
Total Tier II Capital	-	-
Total capital /capital base	**547,001,848**	**391,418,965**

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

	2023		**2022**	
%	**Risk Assets MNT'000**	**Weighted MNT'000**	**Risk Assets MNT'000**	**Weighted MNT'000**
0	1,781,156,553	-	1,443,476,998	-
20	308,644,965	61,728,993	225,199,784	45,039,957
50	547,310,181	273,655,091	393,721,857	196,860,929
100	2,622,694,934	2,263,803,281	1,935,896,700	1,654,881,610
150	10,608,968	15,293,786	9,254,396	13,041,461
Adjustments:				
Operational risk		42,422,614		39,301,988
Foreign exchange risk		7,497,896		27,192,916
Total	**5,270,415,601**	**2,664,401,661**	**4,007,549,735**	**1,976,318,861**

The core capital ratio and the risk weighted capital ratio prepared according to BoM regulations submitted by the Bank to BoM were 20.70% (2022: 20.06%) and 20.70% (2022: 20.06%), respectively.

33. Events after the reporting period

The Bank has declared a dividend of MNT 15.53 billion from its interim earnings to its shareholders in proportion to their ownership on 6 November 2023 and the shareholders of the Bank approved the decision on 2 February 2024.

The Bank has also declared a dividend of MNT 26.6 billion from its year end earnings on 19 February 2024. The dividend declaration is subject to the approval of BoM, which has not yet been granted by the BoM as of the date of issuance of these financial statements.

No other matter or circumstance has occurred subsequent to the period end that has significantly affected, or may significantly affect, the operations of the Bank.

34. Mongolian translation

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