XACBANK LLC
(Incorporated in Mongolia)

Audited Financial Statements
31 December 2022

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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 (appointed as of 26 April 2022) Mr. Erik Versavel (appointed as of 21 September 2022) Mr. Maurice Lam (resigned as of 4 Feb 2022)
CORPORATE SECRETARY:	Ms. Munkhtselmeg Nyamsuren (appointed as of 06 June 2022) Ms. Ashidmaa Dashnyam (resigned as of 31 May 2022)
AUDITORS	Ernst & Young Mongolia Audit LLC Certified Public Accountants

XACBANK LLC

Statement by executives

We, Tsevegjav Gumenjav being Chief Executive Officer of XacBank LLC (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 7 to 84 give a true and fair view of the financial position of the Bank as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

ХАСБАНК
УХН4937 2578

TSEVEGJAV GUMENJAV
(Chief Executive Officer)

ERDENEBAYAR GANZORIG
(Chief Financial Officer)

Ulaanbaatar, Mongolia
Date: 15 March 2023

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of XacBank LLC

Opinion

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance 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.

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

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

- 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.

Other Matter

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

Ernst & Young Mongolia Audit LLC

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by

Khabylkhairat Bulanbai
Director

Approved by

Adrian Chu
Partner

Ulaanbaatar, Mongolia
Date: 15 March 2023

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
LIBOR	London Interbank Offered 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 LLC

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
Interest and similar income from financial assets at AC	4.1	362,440,045	322,909,506
Interest and similar income from financial instruments at FVTPL	4.2	14,218,509	9,176,832
Interest and similar expense	4.3	(156,331,816)	(174,330,045)
Net interest income	4	**220,326,738**	**157,756,293**
Fees and commission income	5	30,701,660	26,944,135
Fees and commission expenses	5	(11,288,762)	(8,019,386)
Net fees and commission income	5	**19,412,898**	**18,924,749**
Net trading income	6	16,983,711	6,194,516
Net income from other financial instruments at FVTPL	7	3,349,898	3,601,665
Net other operating income/(expenses)	8	3,597,709	(374,161)
Total operating income		**263,670,954**	**186,103,062**
Net credit loss expense	9	(9,153,357)	(4,571,200)
Net operating income		**254,517,597**	**181,531,862**
Operating expenses	10	(109,334,959)	(80,470,954)
Amortisation of deferred grants	22	1,506,637	1,407,264
Profit before tax		**146,689,275**	**102,468,172**
Income tax expense	11.1	(40,850,689)	(27,205,297)
Profit for the year		**105,838,586**	**75,262,875**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Movement in investment revaluation reserve, net of tax		854,230	2,653
Gain on revaluation of premises		-	2,997,142
Other comprehensive income for the year, net of tax		**854,230**	**2,999,795**
Total comprehensive income for the year		**106,692,816**	**78,262,670**
Earnings per share (MNT):			
Basic earnings per share	12	105.84	75.26
Diluted earnings per share	12	105.84	75.26

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

XACBANK LLC

Statement of financial position

As at 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
ASSETS			
Cash and balances with BoM	13.1	431,341,650	248,313,381
Mandatory cash balances with BoM	13.2	255,682,837	214,231,304
Financial instruments at FVTPL			
Derivative financial instruments	14.2	107,798,730	49,223,110
Financial instruments	14.1	83,897,165	76,288,953
Loans and advances to customers	14.1	102,764,818	90,000,608
Financial assets at FVTOCI			
Equity instruments	15	4,682,289	3,613,197
Financial assets at amortised cost			
Due from banks	16.1	282,232,458	42,487,278
Debt instruments	16.2	596,387,687	926,714,515
Loans and advances to customers	16.3	1,900,052,627	1,701,557,761
Other assets	17	71,527,286	60,592,954
Properties held for sale	18	2,063,167	133,594
Property, equipment and right-of-use assets	19	68,221,257	67,214,011
Intangible assets	20	18,895,588	15,452,521
Deferred tax assets	11.2	5,232,744	4,135,441
TOTAL ASSETS		**3,930,780,303**	**3,499,958,628**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial instruments at FVTPL			
Derivative financial instruments	14.2	1,639,595	371,050
Financial liabilities at amortised cost			
Due to banks	21.1	51,866,980	2,691,406
Due to customers	21.2	2,438,619,569	2,252,099,731
Borrowed funds	21.3	857,363,227	768,775,737
Debt securities issued	21.4	-	8,403,663
Deferred grants	22	7,970,706	9,243,242
Lease liabilities	23	5,310,092	5,422,527
Other liabilities	24	68,482,406	64,250,454
Income tax payable	11.1	23,840,068	4,705,974
TOTAL LIABILITIES		**3,455,092,643**	**3,115,963,784**
EQUITY			
Ordinary shares	25	100,000,000	100,000,000
Share premium		1,817,773	1,817,773
Reserves	26	95,708,103	84,602,413
Retained earnings		278,161,784	197,574,658
TOTAL EQUITY		**475,687,660**	**383,994,844**
TOTAL LIABILITIES AND EQUITY		**3,930,780,303**	**3,499,958,628**

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

XACBANK LLC

Statement of changes in equity

For the year ended 31 December 2022

	Ordinary shares MNT'000 (Note 25)	Share premium MNT'000	Reserves MNT'000 (Note 26)	Retained earnings MNT'000	Total equity MNT'000
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**
At 1 January 2021	**58,625,979**	**1,817,773**	**57,851,872**	**194,936,550**	**313,232,174**
Profit for the year	-	-	-	75,262,875	75,262,875
Other comprehensive income	-	-	2,999,795	-	2,999,795
Total comprehensive income	**-**	**-**	**2,999,795**	**75,262,875**	**78,262,670**
Cash dividends				(7,500,000)	(7,500,000)
Issue of share capital through stock dividend	41,374,021	-	-	(41,374,021)	-
Transfer to/(from) regulatory reserve	-	-	23,750,746	(23,750,746)	-
At 31 December 2021	**100,000,000**	**1,817,773**	**84,602,413**	**197,574,658**	**383,994,844**

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).

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

XACBANK LLC

Statement of cash flows

For the year ended 31 December 2022

	Notes	2022 MNT'000	2021 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		146,689,275	102,468,172
Adjustments for:			
Loss/(gain) on disposal of property and equipment	8	4,564	(4,862)
Loss on disposal of foreclosed properties	8	419,419	1,125,540
Gain on disposal of property held for sale	8, 18	(316,337)	(155,981)
Loss on disposal of financial instruments measured at FVTPL	7	-	156,913
Unrealised foreign exchange loss/(gain)	8	57,154,258	(21,922,069)
Changes in fair value of financial derivatives	8	(57,307,075)	26,831,960
Net credit loss expense	9	6,577,134	2,815,312
Modification loss from financial assets at AC	9	3,107,879	3,118,563
Modification gain from borrowed funds	9	(531,656)	(1,362,675)
Fair value changes in financial instruments measured at FVTPL	6, 7	1,344,771	370,512
Gain on disposal of equity instruments	8	(106,153)	-
Depreciation of property and equipment	10	6,285,015	6,339,870
Depreciation of right-of-use assets	10	3,809,293	3,711,714
Amortisation of intangible assets	10	1,952,099	2,910,587
Property and equipment written off	10	89,955	80,098
Intangible assets written off	10	114,070	-
Revaluation deficit on premises	10	-	868,801
Reversal of impairment loss on foreclosed properties	8	(1,126,650)	(3,026,616)
Reversal of impairment loss on properties held for sale	8	-	(116,699)
Amortisation of deferred grants	22	(1,506,637)	(1,407,264)
Interest income from financial assets measured at AC	4.1	(362,440,045)	(322,909,506)
Interest income from financial instruments measured at FVTPL	4.2, 6, 7	(20,890,312)	(13,885,992)
Interest expense	4.3	156,331,816	174,330,045
Interest received		305,237,065	264,386,797
Interest paid		(115,139,635)	(130,131,418)
Operating cash flows before operating assets and liabilities		**129,752,113**	**94,591,802**
Changes in operating assets:			
Statutory deposits with BoM		(41,451,533)	(27,858,636)
Loans and advances to customers		(257,749,451)	(421,808,737)
Derivative financial instruments		63,790,181	21,973,538
Other assets		(11,710,564)	7,729,405
Changes in operating liabilities:			
Due to banks		49,167,894	750,192
Due to customers		91,833,073	229,145,729
Other liabilities		(10,801,508)	(2,361,464)
Cash generated from/(used in) operations		**12,830,205**	**(97,838,171)**
Income tax paid	11.1	(23,098,641)	(31,872,211)
Net cash flows used in operating activities		**(10,268,436)**	**(129,710,382)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on debt instruments		60,898,119	73,511,422
Purchase of debt instruments at AC		-	(17,620,921)
Proceeds from financial investments at FVTPL		541,600	1,152,004
Proceeds from disposal of equity instruments at FVTOCI		176,034	-
Proceeds from disposal of debt instruments at AC		23,831,383	1,483,100
Proceeds from disposal of property and equipment		36,774	10,027
Acquisition of property and equipment	19	(8,197,714)	(5,380,980)
Acquisition of intangible assets	20	(5,509,236)	(3,656,575)
Proceeds from disposal of properties held for sale	18	878,485	3,085,797
Proceeds from disposal of foreclosed properties		7,576,596	19,410,445
Net cash flows generated from investing activities		**80,232,041**	**71,994,319**

	Notes	2022 MNT'000	2021 MNT'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on borrowed funds		(40,884,194)	(42,300,337)
Interest paid on debt instruments		(164,801)	(703,340)
Drawdown of borrowed funds		368,524,931	172,827,206
Repayment of borrowed funds		(344,835,822)	(334,803,370)
Repayment of debt instruments		(8,262,767)	(2,000,000)
Dividends paid		(15,000,000)	(7,500,000)
Deferred grants received	22	234,101	331,540
Principal portion of lease liabilities paid		(3,965,980)	(3,703,188)
Net cash flows used in financing activities		**(44,354,532)**	**(217,851,489)**
Effect of exchange rate changes on cash and cash equivalents		**80,503,259**	**(1,285,402)**
Net increase/(decrease) in cash and cash equivalents		**106,112,332**	**(276,852,954)**
Cash and cash equivalents brought forward		**1,172,353,926**	**1,449,206,880**
Cash and cash equivalents carried forward	**13.3**	**1,278,466,258**	**1,172,353,926**

Reconciliation of changes in liabilities arising from financing activities:

Lease liabilities	2022 MNT'000	2021 MNT'000
At 1 January	5,422,527	3,176,591
Non-cash additions	3,706,778	5,393,450
Termination of lease	(171,252)	-
Interest expense during the year	318,019	555,674
Payment of lease obligation	(3,965,980)	(3,703,188)
At 31 December	**5,310,092**	**5,422,527**

Borrowed funds	2022 MNT'000	2021 MNT'000
At 1 January	768,775,737	937,585,863
New disbursement	368,524,931	172,827,206
Repayment	(344,835,822)	(334,803,370)
Interest repayment	(40,884,194)	(42,300,337)
Non-cash repayments to BoM and GoM by transferring Senior RMBS	(48,088,000)	(9,500,800)
Foreign exchange movement	112,494,895	(163,970)
Interest expense accrued	41,907,336	46,493,820
Modification gain	(531,656)	(1,362,675)
At 31 December	**857,363,227**	**768,775,737**

Debt securities issued	2022 MNT'000	2021 MNT'000
At 1 January	**8,403,663**	**10,618,643**
Repayment	(8,262,767)	(2,000,000)
Interest repayment	(164,801)	(703,340)
Foreign exchange movement	1,268	(2,061)
Interest expense accrued	22,637	490,421
At 31 December	**-**	**8,403,663**

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

1. Corporate information

XacBank LLC 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 limited liability company, 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 16/F, International Commerce Center Tower, Jamiyan Gun Street 9, Ulaanbaatar 14210, Mongolia.

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

- Mongolyn Alt Corporation LLC
- International Finance Corporation (IFC)
- ORIX Corporation
- European Bank for Reconstruction and Development
- National Bank of Canada
- Ronoc Partners Kft.
- Mongolia Financial Services
- Triodos Fair Share Fund
- Open Society Forum
- UB Rotary Club
- 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 2023.

2. Accounting policies

2.1 Basis of preparation

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.

The Bank has merged with its fellow subsidiary, XacLeasing LLC as of 13 November 2021 as per the shareholders' resolution of the holding company. The Bank and XacLeasing LLC had common shareholder and hence the management has accounted for the Merger as business combination under common control as of 13 November 2021, i.e. scoped out of IFRS 3 *Business combinations* and applied pooling of interest method accounting retrospectively. As the management elected an accounting policy whereby it restated the prior periods financial statements, financial statements were prepared as if the merger had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the Merger. Both the Bank's and XacLeasing LLC's financial statements were prepared using uniform accounting policies and applied consistently.

Statement of compliance

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

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.

Covid-19

The Covid-19 outbreak was first reported near the end of 2019. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the Covid-19 outbreak to be a pandemic.

The Covid-19 pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities. Therefore, the Bank carefully considered whether additional disclosures are necessary in order to help users of financial statements understand the judgements applied in the financial statements.

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
  - S&P 500

  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.

Whilst the Bank considers these valuations are the best estimates at present, the uncertainty caused by the Covid-19 pandemic has resulted in greater market volatility, leading to higher degree of uncertainty in respect of the valuations in the current year. Persistent uncertainty or sudden deterioration in the market environment may cause further disruptions or volatility, as such significant changes in the underlying assumptions relating to these factors could result in material adjustments to the fair value of these instruments. 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 2022. 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 2022, 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 2022, 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 2022	Amendments to IFRS 3 *Reference to the Conceptual Framework* Amendments to IAS 16 *Property, Plant and Equipment: Proceeds before Intended Use* Amendments to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract* IFRS 1 First-time adoption of International Financial Reporting Standards *Subsidiary as a first-time adopter* IFRS 9 Financial Instruments *Fees in the '10 per cent' test for derecognition of financial liabilities* IAS 41 Agriculture *Taxation in fair value measurements*

Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.
In accordance with the transitional provisions, the Bank applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Bank as there were no sales of such items produced by property, plant and equipment made available for use on or after 1 January 2021, which is the beginning of the earliest period presented in these financial statements.

IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the transitional provisions, the Bank applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

These were no modifications in the financial instruments that would impact Bank's financial statements as per amendments during the period.

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.)

Reference to the Conceptual Framework - Amendments to IFRS 3

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. In accordance with the transitional provisions, the Bank applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments.

The Bank has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Bank.

Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract (i.e., the costs that the Bank cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Bank has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Bank.

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 2023	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
1 January 2024	Amendments to IFRS 16 *Lease Liability in a Sale and Leaseback* Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*
To be determined	Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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.)

IFRS 17 Insurance contracts

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

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

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

- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers or IAS 37 Provisions, Contingent Liabilities and Contingent Assets*) to the other components

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank has completed the assessment of the impacts of adopting IFRS 17 and, also taking into consideration the scope exclusions for certain banking products, such as credit cards, in IFRS 17.7(h), it has concluded that it does not expect any material impact on its financial statements from the adoption of the new standard in 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 (Contd.)

Definition of Accounting Estimates - Amendments to IAS 8

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Bank.

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

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

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

The Bank is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

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

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

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

The Bank is currently assessing the impact of the amendments on their accounting policy disclosures.

2.4 Summary of significant 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 Summary of significant 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 Summary of significant 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 Summary of significant 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 Summary of significant 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 and debt securities issued are disclosed in Notes 21.3 and 21.4, respectively.

(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 21.1).

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 21.2).

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 Summary of significant 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 Summary of significant 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 Summary of significant 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 Summary of significant 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 Summary of significant 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 Summary of significant 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 Summary of significant 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 Summary of significant 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 Summary of significant 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. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

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 Summary of significant 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, consumption loans and financial leasing, standard 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 trading or market making for smaller banks 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 2022 and 2021.

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 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**

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 2021.

	Retail Banking	Business Banking	Leasing	Treasury & Funding	Total
	2021 MNT'000	2021 MNT'000	2021 MNT'000	2021 MNT'000	2021 MNT'000
Net income					
Third party	87,235,727	56,440,269	16,981,251	25,445,815	186,103,062
Inter-segment	29,787,251	(19,485,201)	(2,633,650)	(7,668,400)	-
	117,022,978	**36,955,068**	**14,347,601**	**17,777,415**	**186,103,062**
Net credit loss expense	(1,361,529)	(2,090,911)	(228,324)	(890,436)	(4,571,200)
Operating income	**115,661,449**	**34,864,157**	**14,119,277**	**16,886,979**	**181,531,862**
Results					
Net interest income	72,256,813	48,347,981	16,591,974	24,161,190	161,357,958
Net fees and commission income	15,656,102	2,908,136	360,511	-	18,924,749
Net trading gain	-	-	-	5,378,028	5,378,028
Derivative instruments	-	-	-	816,488	816,488
Depreciation of property and equipment	(5,102,658)	(618,606)	-	(618,606)	(6,339,870)
Depreciation of right-of-use assets	(3,711,714)	-	-	-	(3,711,714)
Amortisation of intangible assets	(2,332,933)	(288,827)	-	(288,827)	(2,910,587)
Other operating expenses	(52,294,200)	(9,965,533)	(2,462,391)	(2,786,659)	(67,508,783)
Amortisation of deferred grants	-	1,407,264	-	-	1,407,264
Net other operating (expense)/income	(677,188)	5,184,152	28,766	(4,909,891)	(374,161)
Net credit loss expense	(1,361,529)	(2,090,911)	(228,324)	(890,436)	(4,571,200)
Inter segment	29,787,251	(19,485,201)	(2,633,650)	(7,668,400)	-
Segment profit before tax	**52,219,944**	**25,398,455**	**11,656,886**	**13,192,887**	**102,468,172**
Income tax expense	(18,259,784)	(1,898,708)	(2,007,030)	(5,039,775)	(27,205,297)
Profit for the year after tax	**33,960,160**	**23,499,747**	**9,649,856**	**8,153,112**	**75,262,875**
Other segment information					
Capital expenditures:					
Property and equipment	4,512,707	795,035	73,238	-	5,380,980
Other intangible assets	3,070,517	540,256	45,802	-	3,656,575
	7,583,224	**1,335,291**	**119,040**	**-**	**9,037,555**
Total segment assets	**1,538,902,563**	**343,373,878**	**193,560,060**	**1,424,122,127**	**3,499,958,628**
Total segment liabilities	**2,350,149,620**	**110,864,098**	**81,009,182**	**573,940,884**	**3,115,963,784**

4. Net interest income

Interest and similar income

	2022 MNT'000	2021 MNT'000
4.1 Financial assets at amortised cost		
Loans and advances to customers	294,038,650	247,740,052
Debt instruments	58,311,299	71,182,477
Cash and balances with BoM	7,359,333	3,236,079
Security Finance Corporation (SFC)-Senior ABS	1,247,474	274,960
Due from banks	1,046,277	339,848
Reverse repurchase agreements	437,012	136,090
	362,440,045	322,909,506
4.2 Financial instruments at FVTPL		
Swap interest	10,015,348	7,140,118
Loans and advances to customers	4,203,161	2,036,714
	14,218,509	9,176,832
Total interest and similar income	376,658,554	332,086,338

4.3 Interest and similar expense

	2022 MNT'000	2021 MNT'000
Financial liabilities at amortised cost and FVTPL		
Due to customers	105,721,684	107,416,115
Borrowed funds	41,907,336	46,493,820
Swap interest	6,278,609	18,417,743
Due to banks	1,773,248	428,745
Interest expense for lease liabilities (Note 19.3)	318,019	555,674
Repurchase agreements	309,484	109,782
Debt securities issued	22,637	490,421
Other interest expenses	799	417,745
	156,331,816	174,330,045
Net interest income	220,326,738	157,756,293

5. Net fees and commission income

	2022 MNT'000	2021 MNT'000
Fees and commission income		
Card related fees and commissions	18,373,247	16,261,259
Remittance, trade finance and other service fees	8,711,913	7,340,655
Account service fees and commissions	3,382,538	2,732,088
Credit related fees and commissions	233,962	610,133
	30,701,660	26,944,135
Fees and commission expenses		
Card transaction charges	7,587,388	6,053,768
Bank service charges	3,651,914	1,899,028
Credit related fees and commissions	49,460	66,590
	11,288,762	8,019,386
Net fees and commission income	19,412,898	18,924,749

5. Net fees and commission income (Contd.)

	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**

	Retail Banking 2021 MNT'000	Business Banking 2021 MNT'000	Leasing 2021 MNT'000	Total 2021 MNT'000
Fee income from providing financial services at a point in time				
Card related fees and commissions	16,261,259	-	-	16,261,259
Remittance, trade finance and other service fees	4,590,603	2,382,196	360,511	7,333,310
Account service fees and commissions	2,732,088	-	-	2,732,088
Credit related fees and commissions	84,194	525,939	-	610,133
	23,668,144	2,908,135	360,511	26,936,790
Fee income earned from services that are provided over time				
Remittance, trade finance and other service fees	7,345	-	-	7,345
	7,345	-	-	7,345
Total revenues from contracts with customers	**23,675,489**	**2,908,135**	**360,511**	**26,944,135**

6. Net trading income

	2022 MNT'000	2021 MNT'000
Foreign exchange	14,059,217	4,745,788
Interest income on Senior RMBS (FVTPL)	1,952,120	665,952
Derivative instruments	1,091,553	816,488
Fair value changes in Senior RMBS (FVTPL)	25,014	(85,882)
Precious metal	(144,193)	52,170
	16,983,711	**6,194,516**

7. Net income from other financial instruments at FVTPL

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

	2022 MNT'000	2021 MNT'000
Interest income on Junior RMBS	4,513,703	4,010,813
Interest income on SFC Junior ABS	205,980	32,395
Fair value changes SFC Junior ABS	(181,539)	(22,678)
Fair value changes in Junior RMBS	(1,188,246)	(261,952)
Loss on disposal of Closed ended Investment Fund	-	(156,913)
	3,349,898	3,601,665

8. Net other operating income/(expenses)

	2022 MNT'000	2021 MNT'000
Fair value change of swaps	57,307,075	(26,831,960)
Other operating income	1,442,060	1,760,612
Reversal of impairment on foreclosed properties (net) (Note 17)	1,126,650	3,026,616
Rental income	877,675	596,500
Gain on disposal of properties held for sale (Note 18)	316,337	155,981
Gain on disposal of equity instruments	106,153	-
(Loss)/gain on disposal of property and equipment	(4,564)	4,862
Loss on disposal of foreclosed properties (Note 17)	(419,419)	(1,125,540)
Unrealised foreign exchange (loss)/gain	(57,154,258)	21,922,069
Reversal of impairment loss on properties held for sale (Note 18)	-	116,699
	3,597,709	(374,161)

9. Net credit loss expense

	2022 MNT'000	2021 MNT'000
Charge/(reversal) of ECL:		
Loans and advances to customers (Note 16.3)	5,812,749	2,045,628
Modification loss, net (Note 31.2)	2,576,223	1,755,888
Other financial assets (Note 17)	305,922	(445,061)
Due from banks (Note 16.1)	258,967	(21,084)
Mandatory cash balances with BoM (Note 13.2)	226,318	177,778
Debt instruments (Note 16.2)	107,202	1,193,410
Contingent liability and commitments (Note 24)	(134,024)	(135,359)
	9,153,357	4,571,200

10. Operating expenses

	2022 MNT'000	2021 MNT'000
Personnel expenses*	66,185,327	40,514,154
IT, network and communications	9,224,662	6,989,996
Depreciation of property and equipment (Note 19)	6,285,015	6,339,870
Deposit insurance expense	4,351,077	4,066,829
Depreciation of right of use assets (Note 19)	3,809,293	3,711,714
Outside service fees	3,265,729	2,328,080
Advertising	2,415,619	1,837,484
Other operating expenses	2,018,285	1,799,024
Amortisation of intangible assets (Note 20)	1,952,099	2,910,587
Meeting and staff activity	1,405,772	1,460,694
Stationary	1,171,040	1,004,152
Armored guard and security	1,168,578	1,211,942
Utilities	1,117,030	957,219
Membership and audit expenses	901,592	754,334
Transportation	873,682	609,178
Insurance	691,409	710,250
Repairs and maintenance	659,912	602,052
Business trip	614,268	96,178
Expense relating to lease of low-value assets, excluding short term of low-value assets (Note 19.3)	511,836	890,732
Loan collection	279,412	474,835
Rental of premises (Note 19.3)	179,400	79,147
Intangible assets write-off (Note 20)	114,070	-
Property and equipment write-off (Note 19)	89,955	80,098
Donations	38,433	60,692
Penalty	11,464	112,912
Revaluation deficit (Note 19)	-	868,801
	109,334,959	**80,470,954**

*** Personnel expenses**		
Salaries, wages and bonus	57,907,963	35,606,282
Contribution to social and health fund	7,355,620	4,219,545
Employer of contribution to defined contribution pension plan	587,791	541,495
Staff training	333,953	146,832
	66,185,327	**40,514,154**

11. Corporate income tax

11.1 Income tax expense

The components of income tax expense for the year ended 31 December 2022 and 2021 are:

	2022 MNT'000	2021 MNT'000
Current tax:		
Current income tax	42,232,735	27,806,995
Deferred tax		
Relating to origination and reversal of temporary differences (Note 11.2)	(1,382,046)	(601,698)
Income tax expense for the year	**40,850,689**	**27,205,297**

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 2022 is 10% (2021: 10%) for the first MNT 6 billion (2021: MNT 6 billion) of taxable income, and 25% (2021: 25%) on the excess of taxable income over MNT 6 billion (2021: MNT 6 billion). Interest income on government bonds is not subject to income tax.

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank for the year ended 31 December 2022 and 2021 are as follows:

	2022 MNT'000	2021 MNT'000
Profit before tax	146,689,275	102,468,172
Tax at statutory tax rate of 25% (2021: 25%)	36,672,319	25,617,043
Effect of income tax subject to lower tax rate	(900,000)	(900,000)
Effect of income not subject to tax	(593,256)	(1,081,331)
Effect of expenses not deductible for tax purposes	5,136,793	2,810,179
Effect of the special tax for certain type of taxable income	508,561	759,406
Overseas current tax *	26,272	-
Tax expense for the year	**40,850,689**	**27,205,297**

The effective income tax rate for 2022 is 27.85% (2021: 26.55%).

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

Income tax payable

	2022 MNT'000	2021 MNT'000
Income tax payable as at 1 January	4,705,974	8,771,190
Income tax expense for the year	42,232,735	27,806,995
Tax paid	(23,098,641)	(31,872,211)
Income tax payable as at 31 December	**23,840,068**	**4,705,974**

11.2 Deferred tax assets

	2022 MNT'000	2021 MNT'000
At beginning of the year	4,135,441	3,534,627
Recognised in statement of profit or loss (Note 11.1)	1,382,046	601,698
Recognised in other comprehensive income	(284,743)	(884)
At end of the year	**5,232,744**	**4,135,441**

11. Corporate income tax (Contd.)

11.2 Deferred tax assets (Contd.)

Deferred taxes analysed by type of temporary difference

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**

As at 31 December 2021	1 January 2021 MNT'000	Recognised in statement of profit or loss MNT'000	Recognized in other comprehensive income MNT'000	31 December 2021 MNT'000
Property and equipment	(749,272)	(9,673)	-	(758,945)
Depreciation of right of use assets	32,177	12,805	-	44,982
Loans and advances to customers	1,511,097	503,980	-	2,015,077
Derivative financial instruments	1,251,940	(1,251,940)	-	-
Other liabilities				
Deferral of long term incentive plan	405,072	(188,139)	-	216,933
Accrued expense for employees	1,714,922	1,436,815	-	3,151,737
Accrued expense	168,222	91,285	-	259,507
Financial instruments at FVTOCI	(687,674)	-	(884)	(688,558)
Borrowings	(111,857)	6,565	-	(105,292)
Net deferred tax assets/(liabilities)	**3,534,627**	**601,698**	**(884)**	**4,135,441**

12. Earnings per share

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

	2022 MNT'000	2021 MNT'000
Profit for the year	105,838,586	75,262,875
Weighted average number of ordinary shares for basic and diluted earnings per share	1,000,000,000	1,000,000,000

Earnings per share

	2022 MNT	2021 MNT
Equity holders of the Bank for the period:		
Basic earnings per share	105.84	75.26
Diluted earnings per share	105.84	75.26

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

	2022 MNT'000	2021 MNT'000
Current account with BoM	225,503,771	210,268,128
Overnight deposit with BoM	105,063,288	-
Cash on hand	37,049,491	36,620,853
Cash in transit	63,725,100	1,424,400
	431,341,650	**248,313,381**

13.2 Mandatory cash balances with BoM

	2022 MNT'000	2021 MNT'000
Mandatory cash balances with BoM	256,086,933	214,409,082
Less: Impairment allowance for Mandatory cash balances with the BoM	(404,096)	(177,778)
	255,682,837	**214,231,304**

	2022 MNT'000	2021 MNT'000
At beginning of the year	177,778	-
Charge for the year (Note 9)	226,318	177,778
At end of the year	**404,096**	**177,778**

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% (2021: 6.0% 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 2022, the average reserve required by BoM for that period of 2 weeks was MNT 132,857.84 million (2021: MNT 108,666.43 million) for local currency and MNT 123,229.10 million (2021: MNT 105,742.65 million) for foreign currency maintained in current accounts with BoM.

13.3 Cash and cash equivalents

	Note	2022 MNT'000	2021 MNT'000
Cash and balances with BoM	13.1	431,341,650	248,313,381
Due from banks	16.1	282,232,458	42,487,278
BoM treasury bills	16.2	577,171,150	907,686,267
Less: BoM treasury bills pledged against borrowed funds from BoM		(12,279,000)	(26,133,000)
Total cash and cash equivalents		**1,278,466,258**	**1,172,353,926**

Additional information on non cash transaction

During the year, the Bank sold certain 5% to 8% mortgage loans with a carrying amount of MNT 48,475 million (2021: MNT 42,109 million) to MIK for which it received RMBS amounting to MNT 43,627 million (2021: MNT 37,898 million) senior tranche and MNT 4,848 million (2021: MNT 4,211 million) junior tranche, in return.

During the year, the Bank sold certain 10.5% repo financed loans with a carrying amount of MNT 14,049 million (2021: MNT 10,372 million) to SFC for which it received ABS amounting to MNT 12,644 million (2021: MNT 9,335 million) senior tranche and MNT 1,405 million (2021: MNT 1,037 million) junior tranche, in return.

14. Financial instruments at fair value through profit or loss

14.1 Financial assets

	2022 MNT'000	2021 MNT'000
Debt instruments		
MIK-Junior RMBS	49,609,271	42,554,601
MIK-Senior RMBS	29,528,142	32,707,952
SFC-Junior ABS (Note 16.3)	4,759,752	1,026,400
	83,897,165	**76,288,953**
Loans and advances to customers at FVTPL	**102,764,818**	**90,000,608**

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 2022 MNT'000	Liabilities 2022 MNT'000	Notional amount 2022 MNT'000
Derivatives held for trading			
Interest rate swap	107,798,730	1,639,595	760,947,158

	Assets 2021 MNT'000	Liabilities 2021 MNT'000	Notional amount 2021 MNT'000
Derivatives held for trading			
Foreign currency swap contracts	67,308	-	8,546,400
Interest rate swap	49,155,802	371,050	708,205,507
	49,223,110	**371,050**	**716,751,907**

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 2022 MNT'000	Changes in fair value taken directly through OCI 2022 MNT'000	Fair value 2021 MNT'000	Changes in fair value taken directly through OCI 2021 MNT'000
Equity instruments				
Unquoted equities*	415,108	(100,491)	455,988	(122,241)
Quoted equities**	4,267,181	3,020,394	3,157,209	2,187,914
	4,682,289	**2,919,903**	**3,613,197**	**2,065,673**

* 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

	2022 MNT'000	2021 MNT'000
Placement with BoM		
Term deposits	138,063,548	-
Placement with foreign banks and financial institutions		
Current accounts	85,191,962	40,221,807
Placement with local banks and financial institutions		
Current accounts	9,068,957	2,245,739
Term deposits	50,379,296	232,070
Less: Impairment allowance for due from banks	(471,305)	(212,338)
	282,232,458	**42,487,278**

Impairment allowance for due from banks

At beginning of the year	212,338	233,422
Charge/(reversal) for the year (Note 9)	258,967	(21,084)
At end of the year	471,305	212,338

16.2 Debt instruments

	2022 MNT'000	2021 MNT'000
BoM treasury bills (Note 13.3)	577,171,150	907,686,267
"Erdenes-Tavantolgoi" JSC bonds	12,279,452	12,279,452
SFC-Senior ABS (Note 16.3)	8,237,697	7,942,206
Less: Impairment allowance for debt instruments	(1,300,612)	(1,193,410)
	596,387,687	**926,714,515**

Impairment allowance for debt instruments

At beginning of the year	1,193,410	-
Charge for the year (Note 9)	107,202	1,193,410
At end of the year	**1,300,612**	**1,193,410**

As at 31 Decemcer 2022, the carrying amount of BoM treasury bill which have been pledged as security for the borrowing obtained from BoM, is MNT 12.28 billion (2021: 26.13 billion).

16.3 Loans and advances to customers

	2022 MNT'000	2021 MNT'000
Loans and advances to customers at amortised cost*	1,826,194,031	1,645,575,773
Lease receivables	148,392,204	131,701,203
Less: Allowance for impairment losses	(74,533,608)	(75,719,215)
	1,900,052,627	**1,701,557,761**

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 13.3).

16. Financial assets at amortised cost (Contd.)

16.3 Loans and advances to customers (Contd.)

Sale of mortgage pool (Contd.)

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 2022 amounts to MNT 572 million (2021: MNT 820 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 306,852 million as of 31 December 2022 (2021: MNT 277,926 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 MNT 14,409 million (2021: MNT 10,372 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 does qualify for derecognition amounted to MNT 11,859 million (2021: Nil) and derecognised a financial liability for any consideration received as at 31 December 2022 (see Note 24). 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 16.2).

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 2022 amounts to MNT 60 million (2021: MNT 12 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 11,860 million as of 31 December 2022 (2021: MNT 8,367 million).

	2022 MNT'000	2021 MNT'000
Loans and advances to customers at amortised cost		
Gross carrying amount		
Stage 1	1,685,457,652	1,462,676,465
Stage 2	59,117,724	99,065,946
Stage 3	81,618,655	83,833,362
	1,826,194,031	**1,645,575,773**
Less: Allowance for impairment losses		
Stage 1	(9,272,778)	(7,895,436)
Stage 2	(12,671,762)	(23,218,898)
Stage 3	(47,108,344)	(41,651,873)
	(69,052,884)	**(72,766,207)**
Net loans and advances to customers	**1,757,141,147**	**1,572,809,566**

16. Financial assets at amortised cost (Contd.)

16.3 Loans and advances to customers (Contd.)

	2022 MNT'000	2021 MNT'000
Lease receivables at amortised cost		
Gross carrying amount		
Stage 1	138,886,491	126,175,586
Stage 2	8,254,243	4,360,875
Stage 3	1,251,470	1,164,742
	148,392,204	131,701,203
Less: Allowance for impairment losses		
Stage 1	(1,733,349)	(2,069,201)
Stage 2	(3,198,661)	(338,096)
Stage 3	(548,714)	(545,711)
	(5,480,724)	(2,953,008)
Net loans and advances to customers	142,911,480	128,748,195

Impairment allowance for loans and advances to customers and lease receivables

	2022 MNT'000	2021 MNT'000
At beginning of the year	75,719,215	74,369,953
Charge for the year (Note 9)	5,812,749	2,045,628
Written off	(6,998,356)	(696,366)
At end of the year	74,533,608	75,719,215

Lease receivables

MNT'000	Lease payments 2022	Present value of lease payments 2022	Lease payments 2021	Present value of lease payments 2021
Total minimum lease receivables				
Within 1 year (inclusive)	62,936,521	56,171,791	61,944,111	55,932,848
Over 1 year but within 2 years (inclusive)	48,192,804	37,335,050	39,321,792	30,926,525
Over 2 years but within 3 years (inclusive)	36,878,118	24,398,218	27,457,232	18,347,596
Over 3 years but within 4 years (inclusive)	26,137,343	14,948,969	19,789,834	11,402,078
Over 4 years but within 5 years (inclusive)	16,271,423	7,976,133	14,768,291	7,273,494
Over 5 years	19,295,368	7,562,043	19,161,090	7,818,662
Unguaranteed residual values	209,711,577	148,392,204	182,442,350	131,701,203
Gross investment in the lease	209,711,577	148,392,204	182,442,350	131,701,203
Less: Unearned finance income	(61,319,373)		(50,741,147)	
Present value of minimum lease payment receivables	148,392,204		131,701,203	
Less: Impairment allowances	(5,480,724)	(5,480,724)	(2,953,008)	(2,953,008)
Net carrying amount of finance lease receivables	142,911,480	142,911,480	128,748,195	128,748,195

17. Other assets

	2022 MNT'000	2021 MNT'000
Other financial assets		
Receivables on cash and settlement services	5,864,077	345,382
Receivables from companies and individuals	4,257,979	4,458,691
Cash collaterals*	1,915,537	1,610,073
Deferred staff loan**	1,496,227	1,489,724
Other financial assets	4,369,411	406,669
Less: Impairment allowance for other financial assets	(1,873,647)	(1,618,289)
	16,029,584	**6,692,250**
Other non-financial assets		
Advance to vendor for goods and service	3,370,152	2,438,306
Consumables and other inventories	1,983,807	202,765
Prepaid expense	49,777	1,582,146
Precious metals	94,439	94,439
VAT receivables	13,703,576	12,154,393
Other non-financial assets	3,142,019	39,582
Foreclosed properties	41,433,855	46,795,646
Less: Impairment allowance for foreclosed properties	(8,279,923)	(9,406,573)
	55,497,702	**53,900,704**
Total other assets	**71,527,286**	**60,592,954**
Impairment allowance for other financial assets		
Stage 1	13,918	9,820
Stage 2	17,811	37,757
Stage 3	1,841,918	1,570,712
	1,873,647	**1,618,289**
Impairment allowance for other financial assets		
At beginning of the year	1,618,289	2,096,879
Charge/(reversal) for the year (Note 9)	305,922	(445,061)
Written off	(50,564)	(33,529)
At end of the year	**1,873,647**	**1,618,289**

* Cash collaterals are guarantee deposits paid to 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.)

	2022 MNT'000	2021 MNT'000
Foreclosed properties		
At beginning of the year	46,795,646	40,499,577
Add: Possession	2,634,224	5,403,599
Add: Transfer from properties held for sale (Note 18)	-	1,149,747
Add: Transfer from investment property	-	21,260,252
Less: Sold during the year	(7,996,015)	(20,535,985)
Less: Transfer to property, plant and equipment (Note 19)	-	(981,544)
	41,433,855	**46,795,646**
Less: Allowances for impairment losses	(8,279,923)	(9,406,573)
At end of the year	33,153,932	37,389,073
Impairment allowance for foreclosed properties		
At beginning of the year	9,406,573	12,433,189
Charge for the year (Note 8)	121,863	1,850,761
Recoveries (Note 8)	(1,248,513)	(4,877,377)
At end of the year	8,279,923	9,406,573

Proceeds from the sale of foreclosed properties during the year were MNT 7,576,596 thousand (2021: MNT 19,410,445 thousand) and the loss on the sale of such properties amounted to MNT 419,419 thousand (2021: loss amounted to MNT 1,125,540 thousand).

18. Properties held for sale

	2022 MNT'000	2021 MNT'000
At beginning of the year	133,594	3,150,622
Add: Transfer from property and equipment (Note 19)	500,393	92,875
Add: Possession	1,991,328	969,660
Less: Sold during the year	(562,148)	(2,929,816)
Less: Transfer to Foreclosed properties (Note 17)	-	(1,149,747)
	2,063,167	**133,594**
Less: Allowances for impairment losses	-	-
At end of the year	2,063,167	133,594
Impairment allowance for properties held for sale		
At beginning of the year	-	116,699
Recoveries (Note 8)	-	(116,699)
At end of the year	-	-

Proceeds from the sale of buildings during the year were MNT 878,485 thousand (2021: MNT 3,085,797 thousand). The gain on the sale of properties held for sale amounted to MNT 316,337 thousand (2021: gain amounted to MNT 155,981 thousand) and is recorded as part of ‘Net other operating expense’ (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 2022	Leasehold improve-ments MNT'000	Premises MNT'000	Vehicles MNT'000	Office furniture MNT'000	Computer equipment and others MNT'000	Construc-tion in progress MNT'000	Right-of-use assets MNT'000	Total MNT'000
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.)

At 31 December 2021	Leasehold improve-ments MNT'000	Premises MNT'000	Vehicles MNT'000	Office furniture MNT'000	Computer equipment and others MNT'000	Construc-tion in progress MNT'000	Right-of-use assets MNT'000	Total MNT'000
At cost or revaluation								
At 1 January 2021	**6,537,839**	**35,075,086**	**4,565,707**	**5,378,802**	**42,825,902**	**545,326**	**12,825,981**	**107,754,643**
Additions	94,683	163,324	766,900	268,283	2,271,569	1,816,221	5,393,450	10,774,430
Transfer from foreclosed properties (Note 17)	-	981,544	-	-	-	-	-	981,544
Write-off	(5,382,369)	-	-	(229,467)	(301,293)	-	-	(5,913,129)
Disposals	-	-	-	(39,147)	(21,250)	-	-	(60,397)
Gain on revaluation of premises (Note 26)	-	2,997,142	-	-	-	-	-	2,997,142
Revaluation deficit (Note 10)	-	(868,801)	-	-	-	-	-	(868,801)
Revaluation	-	(2,335,341)	-	-	-	-	-	(2,335,341)
Reclassification	-	490,000	-	20,851	-	(510,851)	-	-
Transfer to property held for sale (Note 18)	-	-	(658,647)	-	-	-	-	(658,647)
At 31 December 2021	**1,250,153**	**36,502,954**	**4,673,960**	**5,399,322**	**44,774,928**	**1,850,696**	**18,219,431**	**112,671,444**
Accumulated depreciation								
At 1 January 2021	**5,975,869**	**1,666,610**	**1,820,603**	**2,895,867**	**23,895,889**	**-**	**7,940,387**	**44,195,225**
Charge for the year (Note 10)	430,347	668,731	443,116	495,160	4,302,516	-	3,711,714	10,051,584
Write-off	(5,382,369)	-	-	(159,712)	(290,950)	-	-	(5,833,031)
Disposals	-	-	-	(33,982)	(21,250)	-	-	(55,232)
Revaluation	-	(2,335,341)	-	-	-	-	-	(2,335,341)
Transfer to property held for sale (Note 18)	-	-	(565,772)	-	-	-	-	(565,772)
At 31 December 2021	**1,023,847**	**-**	**1,697,947**	**3,197,333**	**27,886,205**	**-**	**11,652,101**	**45,457,433**
Net Carrying amount at 31 December 2021	**226,306**	**36,502,954**	**2,976,013**	**2,201,989**	**16,888,723**	**1,850,696**	**6,567,330**	**67,214,011**

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 19.5 billion as at 31 December 2022 (2021: MNT 19.3 billion).

19.2 Gross carrying amount of fully depreciated property and equipment

	2022 MNT'000	2021 MNT'000
Computer equipment and others	15,313,167	13,577,302
Office furniture	709,676	598,030
Vehicles	135,712	62,712
	16,158,555	**14,238,044**

19.3 Right-of-use assets and lease liabilities

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

	2022 MNT'000	2021 MNT'000
Interest on lease liabilities (Note 4)	318,019	555,674
Depreciation charge of right-of-use assets (Note 10)	3,809,293	3,711,714
Expense relating to short-term leases (Note 10)	179,400	79,147
Expense relating to lease of low-value assets, excluding short-term leases of low-value assets (Note 10)	511,836	890,732
	4,818,548	**5,237,267**

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 2022 MNT'000	Potential future lease payments not included in lease liabilities (undiscounted) MNT'000	Lease liabilities recognised as at 31 December 2021 MNT'000	Potential future lease payments not included in lease liabilities (undiscounted) MNT'000
Branches	5,097,566	5,757,755	5,098,228	5,831,904
Office space	212,526	222,672	324,299	356,613

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 2022, there is no such triggering event.

Lease committments

As at 31 December 2022, 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 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**
At 31 December 2021				
At cost				
At 1 January 2021	10,594,443	11,976,888	5,156,387	27,727,718
Additions	402,012	694,775	2,559,788	3,656,575
Write-off	(24,184)	-	-	(24,184)
Reclassification	-	1,105,113	(1,105,113)	-
At 31 December 2021	10,972,271	13,776,776	6,611,062	31,360,109
Accumulated amortisation				
At 1 January 2021	4,907,418	8,113,767	-	13,021,185
Charge for the year (Note 10)	1,204,032	1,706,555	-	2,910,587
Write-off	(24,184)	-	-	(24,184)
At 31 December 2021	6,087,266	9,820,322	-	15,907,588
Net carrying amount	**4,885,005**	**3,956,454**	**6,611,062**	**15,452,521**

21. Financial liabilities at amortised cost

21.1 Due to banks

	2022 MNT'000	2021 MNT'000
Current accounts from banks and financial institutions	818,747	2,144,398
Term deposits from banks and financial institutions	51,048,233	547,008
	51,866,980	2,691,406

21.2 Due to customers

	2022 MNT'000	2021 MNT'000
Government deposits		
- Current accounts	34,064,420	79,305,483
- Demand deposits	-	689,196
- Time deposits	9,596,356	3,822,453
Private sector deposits		
- Current accounts	447,868,305	249,733,532
- Demand deposits	-	22,572,842
- Time deposits	115,626,011	72,081,422
Individual deposits		
- Current accounts	169,539,515	132,328,164
- Demand deposits	142,277,593	200,033,760
- Time deposits	1,519,647,369	1,491,532,879
	2,438,619,569	2,252,099,731

Included in 'Due to customers' are deposits of MNT 12,764 million (2021: MNT 16,030 million) held as collateral for irrevocable commitments under financial guarantees provided by the Bank as at 31 December 2022.

21. Financial liabilities at amortised cost (Contd.)

21.3 Borrowed funds

	2022 MNT'000	2021 MNT'000
Borrowed funds from foreign financial institutions		
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (“FMO”)	111,817,921	137,746,621
European Bank for Reconstruction and Development ("EBRD")	89,029,024	4,591,221
Green Climate Fund ("GCF")	71,555,120	58,416,437
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	68,762,672	56,459,834
BlueOrchard Microfinace Fund	68,331,795	-
Asian Development Bank (“ADB”)	58,910,278	72,870,465
INCOFIN CVSO	57,495,262	38,241,316
SIFEM AG	34,369,222	28,211,830
Micro, Small and Medium Enterprises Bonds S.A.	24,837,909	-
ACTIAM FINANCIAL INCLUSION FUND	20,631,832	-
International Finance Corporation ("IFC")	17,186,004	42,532,559
FINNISH FUND FOR INDUSTRIAL COOPERATION LTD	17,176,241	14,093,890
DWM Income Funds S.C.A. - SICAV SIF	17,175,110	2,934,519
Covid-19 Emerging and Frontier Markets MSME Support Fund SCSp SICAV-RAIF	17,082,873	-
Microfinance Initiative for Asia (MIFA) Debt Fund SA, SICAV-SIF	17,082,873	-
Global Climate Partnership Fund S.A., SICAV-SIF	11,682,605	14,353,624
Baobab Securities Limited	5,880,078	5,882,735
ResponsAbility Global Micro and SME Finance Fund	3,402,369	5,593,964
Belgian Investment Company for Developing countries NV/SA-BIO	2,924,292	7,233,190
ResponsAbility SICAV (Lux) Micro and SME Finance Debt Fund	2,093,766	3,442,428
ResponsAbility SICAV (Lux) Financial Inclusion Fund	1,916,264	3,155,559
ResponsAbility SICAV (Lux) Micro and SME Finance Leaders	1,306,544	2,151,518
Societe De Promotion Et De Participation Pour La Cooperation Economique S.A ("PROPARCO")	-	42,630,889
OPEC Fund for International Development ("OFID")	-	35,568,816
International Bank For Economic Cooperation ("IBEC")	-	14,222,142
Raisin Bank AG	-	14,219,154
International Investment Bank (“IIB”)	-	10,832,363
INCOFIN CVSO CVBA-SO, a Belgian investment company	-	7,125,392
Symbiotics Sicav (Lux)	-	5,684,341
Total borrowed funds from foreign financial institutions	**720,650,054**	**628,194,807**
Borrowed funds from government organisations		
BoM	121,671,425	119,626,604
Ministry of Finance	6,784,036	9,642,608
Ministry of Finance/ Japan Bank for International Cooperation	6,345,413	8,350,990
Asian Development Bank	1,003,859	1,550,789
SME Development Fund	904,497	1,394,286
International Fund for Agriculture Development	3,943	15,653
Total borrowed funds from government organisations	**136,713,173**	**140,580,930**
Total borrowed funds	**857,363,227**	**768,775,737**

21. Financial liabilities at amortised cost (Contd.)

21.3 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 2022 and 2021.

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 untis of Chief Finance 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 issue 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 based on amendment to agreement.

As of 31 December 2022, the Bank is compliant with their contractual debt covenants imposed by their lenders. In order to alleviate pandemic driven economic pressure, the GoM and the BoM had been implementing various relief programs beginning from April 2020 to throughout 2021 and as a result the 'restructured loan' balances escalated for all banking sector. The Bank obtained necessary waivers in prior year and continues to cooperate with the lenders including commitment of additional information reporting requirements.

21.4 Debt securities issued

	2022 MNT'000	2021 MNT'000
Debt securities issued	-	8,403,663

Debt securities are unsecured and were issued by XacLeasing LLC to an individual in Jan 2020 with a maturity of 2 years and with an interest rate of 4.0% p.a. Debt securities were matured and fully repaid in 2022.

22. Deferred grants

	2022 MNT'000	2021 MNT'000
Micro Energy Credit Corporation ("MEC")	3,493,328	3,408,237
GCF Proceeds EECLP	3,063,445	2,754,326
Green Climate Fund Grant on MSME program	730,363	815,768
Green Climate Fund Proceeds	125,740	726,607
GCF Grant on ESIMD-RS	324,269	602,072
GCF Grant on Mini-grid PPF	142,145	490,455
GCF Grant on MGFC-PPF	79,304	123,451
GCF Grant on NDA RS-2	12,112	322,326
Total deferred grants	**7,970,706**	**9,243,242**

Movements in deferred grants are presented as follows:

	2022 MNT'000	2021 MNT'000
Balance at beginning of the year	9,243,242	10,318,966
Received during the year	234,101	331,540
Amortisation for the year	(1,506,637)	(1,407,264)
Balance at end of the year	7,970,706	9,243,242

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

	2022 MNT'000	2021 MNT'000
Less than 12 month	2,279,980	2,235,225
1 to 2 years	1,756,826	1,620,662
2 to 3 years	830,955	940,095
3 to 4 years	442,331	539,978
4 to 5 years	-	86,567
	5,310,092	**5,422,527**

24. Other liabilities

	2022 MNT'000	2021 MNT'000
Other financial liabilities		
Clearing settlement	19,591,381	12,842,982
Liabilities for loans sold to SFC with recourse	-	8,375,764
Other financial liabilities	12,007,474	14,468,588
Impairment allowance on off-balance exposures (Note 28)	220,871	354,895
	31,819,726	**36,042,229**
Other non-financial liabilities		
Accrued salary costs and bonuses	19,419,178	12,606,944
VAT payables	15,774,038	14,005,654
Taxes payable other than on income tax	163,492	264,840
Other non-financial liabilities	1,305,972	1,330,787
	36,662,680	**28,208,225**
Total other liabilities	**68,482,406**	**64,250,454**

Impairment allowance on off-balance exposures

	2022 MNT'000	2021 MNT'000
At beginning of the year	354,895	490,254
Reversal for the year (Note 9)	(134,024)	(135,359)
At end of the year	**220,871**	**354,895**

25. Ordinary shares

	Number of shares authorised, issued and fully paid		Amount	
	31 December 2022	31 December 2021	31 December 2022 MNT'000	31 December 2021 MNT'000
Total ordinary shares	1,000,000,000	1,000,000,000	100,000,000	100,000,000

As at 31 December 2022, the Bank has 1,000,000,000 issued shares (2021: 1,000,000,000) at a par value of MNT 100.00 (2021: MNT 100.00).

The table below shows movements of number of ordinary shares and ordinary shares in 2022 and 2021:

	Number of ordinary shares	Ordinary shares MNT'000
At 1 January 2022 and 31 December 2022	**1,000,000,000**	**100,000,000**
At 1 January 2021	**586,259,793**	**58,625,979**
Issuance of new shares through stock dividend	413,740,207	41,374,021
At 31 December 2021	**1,000,000,000**	**100,000,000**

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 2022	**52,568,719**	**18,528,613**	**2,065,673**	**11,439,408**	**84,602,413**
Unrealised gain	-	-	854,230	-	854,230
Transfer to 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**
At 1 January 2021	**28,817,973**	**15,531,471**	**2,063,020**	**11,439,408**	**57,851,872**
Unrealised gain	-	-	2,653	-	2,653
Gain on revaluation of premises (Note 19)	-	2,997,142	-	-	2,997,142
Transfer to regulatory reserve	23,750,746	-	-	-	23,750,746
At 31 December 2021	**52,568,719**	**18,528,613**	**2,065,673**	**11,439,408**	**84,602,413**

*At the date of this report, no policy is formalised by the Bank as to the purpose of these reserves.

Regulatory reserve

As of 31 December 2022, the regulatory reserve was MNT 62,820 million (31 December 2021: MNT 52,569 million) which consists of loan loss reserve of MNT 31,809 million (31 December 2021: MNT 19,813 million) and foreclosed asset impairment reserve of MNT 31,011 million (31 December 2021: MNT 32,756 million). 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 2022	MNT'000	MNT'000	MNT'000	MNT'000
Financial assets at FVTPL				
Derivative financial instruments				
Interest rate swap	-	107,798,730	-	107,798,730
Senior RMBS	-	-	29,528,142	29,528,142
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				
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**
At 31 December 2021				
Financial assets at FVTPL				
Derivative financial instruments				
Foreign currency swap contracts	-	67,308	-	67,308
Interest rate swap	-	49,155,802	-	49,155,802
Senior RMBS	-	-	32,707,952	32,707,952
Junior RMBS	-	-	42,554,601	42,554,601
SFC-Junior ABS	-	-	1,026,400	1,026,400
Loans and advances to customers	-	90,000,608	-	90,000,608
	-	**139,223,718**	**76,288,953**	**215,512,671**
Financial investments at FVTOCI				
Unquoted equities	-	-	455,988	455,988
Quoted equities	3,157,209	-	-	3,157,209
	3,157,209	**-**	**455,988**	**3,613,197**
Financial liabilities at FVTPL				
Derivative financial instruments				
Interest rate swap	-	371,050	-	371,050
	-	**371,050**	**-**	**371,050**
Non-financial assets				
Revalued premises	-	-	36,502,954	36,502,954
	-	**-**	**36,502,954**	**36,502,954**

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 31/12/2022 MNT'000	Fair value as at 31/12/2021 MNT'000	Fair value hierarchy	Valuation technique(s)	Key input(s)
1) Foreign currency swap contracts	-	67,308	Level 2	Market value, Interest rate parity	Repo rate, government bonds yield and spot exchange rate
2) Interest rate swap	106,159,135	48,784,752	Level 2	Market value	Libor rate, policy rate and spot exchange rate
3) Senior and Junior RMBS and Junior ABS	83,897,165	76,288,953	Level 3	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments
4) Unquoted equities	415,108	455,988	Level 3	Net assets value	Market share price, transaction price
5) Loans and advances to customers	102,764,818	90,000,608	Level 2	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments
6) Revalued premises	37,688,109	36,502,954	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 2022:

	Note	2022 Carrying amount MNT'000	2022 Fair value MNT'000	2021 Carrying amount MNT'000	2021 Fair value MNT'000
Financial assets					
Loans and advances to customers	**16.3**	1,900,052,627	1,906,438,599	1,701,557,761	1,710,640,950
Financial liabilities					
Borrowed funds	**21.3**	857,363,227	856,968,758	768,775,737	768,338,516
Debt securities issued	**21.4**	-	-	8,403,663	8,403,663
		857,363,227	**856,968,758**	**777,179,400**	**776,742,179**

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

	Note	2022 MNT'000	2021 MNT'000
Senior RMBS, at fair value			
At beginning of the year		32,707,952	4,066,916
Addition		43,626,900	37,898,000
Sold		(48,629,600)	(9,769,000)
Interest accrued	**6**	1,952,120	665,952
Interest received		(154,244)	(68,034)
Change in fair value	**6**	25,014	(85,882)
At end of the year	**14.1**	**29,528,142**	**32,707,952**
Junior RMBS, at fair value			
At beginning of the year		42,554,601	37,248,810
Addition		4,847,600	4,211,201
Interest accrued	**7**	4,513,703	4,010,813
Interest received		(1,118,387)	(2,654,271)
Change in fair value	**7**	(1,188,246)	(261,952)
At end of the year	**14.1**	**49,609,271**	**42,554,601**
SFC-Junior ABS, at fair value			
At beginning of the year		1,026,400	-
Addition		3,847,000	1,037,200
Interest accrued	**7**	205,980	32,395
Interest received		(138,089)	(20,517)
Change in fair value	**7**	(181,539)	(22,678)
At end of the year	**14.1**	**4,759,752**	**1,026,400**

27. Fair value of financial instruments (Contd.)

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

	Note	2022 MNT'000	2021 MNT'000
Unquoted investments, at fair value			
At beginning of the year		455,988	460,876
Change in fair value		(40,880)	(4,888)
At end of the year	15	**415,108**	**455,988**
Revalued premises, at fair value			
At beginning of the year		36,502,954	33,408,476
Additions and reclassifications	19	2,433,160	653,324
Transfer from foreclosed properties	19	-	981,544
Depreciation charge for the period	19	(747,612)	(668,731)
Transfer to property held for sale	19	(500,393)	-
Revaluation	19	-	2,128,341
At end of the year		**37,688,109**	**36,502,954**

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

31 December 2022	Fair value MNT'000	Reasonable change	Sensitivity of the input to fair value	Valuation technique	Significant unobservable inputs	Range of inputs
Financial assets						
Junior RMBS, at fair value	49,609,271	1%	+/- 496,093	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments	MNT 100,000
Senior RMBS, at fair value	29,528,142	1%	+/- 295,281	Discounted cash flows	Future cash flows, and market interest rate of instruments	MNT 100,000
SFC-Junior ABS	4,759,752	1%	+/- 47,598	Discounted cash flows	Future cash flows, PD, LGD and market interest rate of instruments	MNT 100,000
Unquoted investments	415,108	10%	+/- 41,511	Net assets value	Market share price, transaction price	MNT 1,000-MNT 8,176,139
Revalued premises	37,688,109	10%	+/- 3,768,811	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.

	2022 MNT'000	2021 MNT'000
Contingent liabilities		
Performance and tender guarantees	27,047,137	26,883,042
Financial guarantees	12,237,214	17,595,901
Letters of credit	29,619,761	20,203,463
	68,904,112	64,682,406
Commitments		
Undrawn commitments to lend	67,877,920	98,328,464
Total	**136,782,032**	**163,010,870**

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 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**

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 2021	**Stage 1 MNT'000**	**Stage 2 MNT'000**	**Stage 3 MNT'000**	**Total MNT'000**
As at 31 December 2020	155,462,055	56,067	22,813	155,540,935
New facilities granted	100,202,201	-	-	100,202,201
Changes in gross carrying amount				
- Transfer from stage 1	(1,352,832)	1,322,658	30,174	-
- Transfer from stage 2	25,059	(30,835)	5,776	-
- Transfer from stage 3	1,878	-	(1,878)	-
Utilisation or expiry of facilities	(92,666,440)	(45,451)	(20,375)	(92,732,266)
Gross carrying amount as at 31 December 2021	**161,671,921**	**1,302,439**	**36,510**	**163,010,870**
Loss allowance				
As at 31 December 2020	482,656	259	7,339	490,254
New facilities granted	209,490	-	-	209,490
Changes in gross carrying amount				
- Transfer from stage 1	(7,042)	3,053	3,989	-
- Transfer from stage 2	28	(35)	7	-
- Transfer from stage 3	543	-	(543)	-
Utilisation or expiry of facilities	(238,642)	11,352	(5,845)	(233,135)
Impact on ECL on transfers between stages and changes to inputs	(114,855)	(3,752)	6,893	(111,714)
Gross carrying amount as at 31 December 2021	**332,178**	**10,877**	**11,840**	**354,895**

Other commitments

	2022 MNT'000	**2021 MNT'000**
Approved and contracted for:		
Intangible assets	2,541,093	2,711,974
Property and equipment	2,438,977	780,789
Consulting services	591,680	846,056
Advertisement	209,591	193,977
Consumables and other inventories	173,611	198,408
Other services	85,255	37,450
	6,040,207	**4,768,654**

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.

Foreclosed properties
In 2017, the Bank recovered MNT 11.6 billion through collateral repossession from a borrower who had MNT 14.4 billion in bad loan. This settlement arrangement came into effect as part of a court order facilitating the bad loan resolution as a whole and was executed under a title deed transfer agreement with the client.

However after number of civil cases, on 6 January 2022, the borrower succeeded in rescission of the aforementioned court order in 2017.

Subsequently, a number of court proceedings were made by either the Bank or the borrower at each levels of judicial system, all the way to the Supreme Court whose rejection to hearing meant the case is currently back to the district court. On 16 January 2023, The District court dismissed the claim in its entirety. Therefore, management assessed that the possibility of any outflow in the settlement of the lawsuit is remote.

At 31 December 2022, there were no major litigation cases involving the Bank other than above.

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 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 and equipment	-	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**

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

At 31 December 2021	Less than 12 months 2021 MNT'000	More than 12 months 2021 MNT'000	Total 2021 MNT'000
Financial assets			
Cash and balances with BoM	248,313,381	-	248,313,381
Mandatory cash balances with BoM	-	214,231,304	214,231,304
Financial instruments at FVTPL			
Derivative financial instruments	23,482,980	25,740,130	49,223,110
Financial instruments	-	76,288,953	76,288,953
Loans and advances to customers	1,572,873	88,427,735	90,000,608
Financial assets at FVTOCI			
Equity instruments	-	3,613,197	3,613,197
Financial assets at amortised cost			
Due from banks	42,487,278	-	42,487,278
Debt instruments	926,714,515	-	926,714,515
Loans and advances to customers	669,184,483	1,032,373,278	1,701,557,761
Other assets	3,763,475	2,928,775	6,692,250
	1,915,518,985	**1,443,603,372**	**3,359,122,357**
Non financial assets			
Other assets	53,806,265	94,439	53,900,704
Properties held for sale	133,594	-	133,594
Property and equipment	-	67,214,011	67,214,011
Intangible assets	-	15,452,521	15,452,521
Deferred tax asset	-	4,135,441	4,135,441
	53,939,859	**86,896,412**	**140,836,271**
Total	**1,969,458,844**	**1,530,499,784**	**3,499,958,628**
Financial liabilities			
Financial instruments at FVTPL			
Derivative financial instruments	100,128	270,922	371,050
Financial liabilities at amortised cost			
Due to banks	2,691,406	-	2,691,406
Due to customers	1,581,419,548	670,680,183	2,252,099,731
Borrowed funds	443,014,240	325,761,497	768,775,737
Debt securities issued	8,403,663	-	8,403,663
Lease liabilities	2,235,226	3,187,301	5,422,527
Other liabilities	28,816,654	7,225,575	36,042,229
	2,066,680,865	**1,007,125,478**	**3,073,806,343**
Non financial liabilities			
Deferred grants	9,243,242	-	9,243,242
Other liabilities	25,914,525	2,293,700	28,208,225
Income tax payable	4,705,974	-	4,705,974
	39,863,741	**2,293,700**	**42,157,441**
Total	**2,106,544,606**	**1,009,419,178**	**3,115,963,784**
Net position	**(137,085,762)**	**521,080,606**	**383,994,844**

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 2022 and 2021, the Bank had the following balances and transactions with related parties.

	2022 MNT'000	2021 MNT'000
a) Loans and advances to related companies:		
Shareholders of holding company	8,619	8,217
	8,619	**8,217**
Members of the Board of Directors and key management personnel of the Bank	1,409,228	1,311,223
Other related parties	101,131	230,562
	1,518,978	**1,550,002**

The loans and advances to related parties are secured, bear interest rates from 3.0% to 22.56% (2021: 6.0% to 20.4%) per annum and are repayable within one to 20 years. The interest income received from such loans during the financial year amounted to MNT 120 million (2021: MNT 116 million).

	2022 MNT'000	2021 MNT'000
b) Deposits from related companies:		
Holding company	22,527,694	3,072,981
Fellow subsidiaries	-	924,705
Shareholders of holding company	191,078	1,286
	22,718,772	**3,998,972**
Members of the Board of Directors and key management personnel of the Bank	8,776,961	4,160,100
Other related parties	47,580,496	4,303,400
	79,076,229	**12,462,472**

The deposits from the above related parties bear interest rates from 0% to 12.0% (2021: 0% to 10.8%) per annum. The interest expenses paid to the above depositors during the financial year amounted to MNT 322 million (2021: MNT 405 million).

	2022 MNT'000	2021 MNT'000
c) Loans from related companies:		
Shareholders of holding company		
European Bank for Reconstruction and Development	89,029,024	4,591,221
International Finance Corporation	17,186,004	42,532,559
	106,215,028	**47,123,780**
Other related parties		

The loans from the above shareholders of TenGer Financial Group LLC bear interest rates from 1.636% to 17.23% (2021: 4.15% to 15.10%) per annum. The interest expenses paid on such loans during the financial year amounted to MNT 3,348 million (2021: MNT 2,834 million).

30. Related party disclosures (Contd.)

	2022 MNT'000	2021 MNT'000
d) Guarantees issued to related companies:		
Fellow subsidiaries	-	18,636
	-	**18,636**
e) Commission income from related companies:		
Holding company	2,125	863
Fellow subsidiaries	1,392	40,634
Shareholders of holding company	953	5,779
	4,470	**47,276**
Members of the Board of Directors and key management personnel of the Bank	3,114	59,848
Other related parties	6,148	198,145
	13,732	**305,269**
f) Contract fee paid to related companies:		
Fellow subsidiaries	272,607	197,158
g) Rental income from related companies:		
Fellow subsidiaries	13,545	18,182
h) Insurance brokerage income from related companies:		
Fellow subsidiaries	543,504	597,788
i) Claims income from related companies:		
Fellow subsidiaries	6,968	2,095
j) Loss from disposal of financial instruments at FVTPL:		
Fellow subsidiaries	-	(373,475)
k) Compensation of key management personnel:		
Salaries and bonuses	15,179,193	7,328,228
Contribution to social and health fund	1,886,688	889,493
	17,065,881	**8,217,721**

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 receivable and other current assets. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2022, The Bank has made impairment allowance in the amount of MNT 9.7 million (2021: MNT 7.5 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 2011–2022. 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 45%, the baseline scenario probability to be 45%, 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 -4.6%, and unemployment will reach 8.8%, with the ECL estimating the downside weight to be 100%. In the optimistic scenario, the Mongolian economic growth is expected to be approximately 4.9% in 2023, similar to the Asian Development Bank's latest forecast, 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 2022 chosen as the baseline scenario.

				MNT'000
Provision	**Loans**	**Leasing**	**Total ECL**	**Changes**
Upside forecast	55,302,445	4,178,160	59,480,606	15,462,485
Baseline forecast	68,601,450	6,341,641	74,943,091	
Downside forecast	75,329,950	7,573,441	82,903,391	(7,960,300)

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

	2022 Total Stage 1 MNT'000	2021 Total Stage 1 MNT'000
As at 1 January	42,699,616	82,761,466
New financial assets originated or purchased	254,590,292	17,908,774
Payments and assets derecognised	(14,586,145)	(57,970,624)
Gross carrying amount as at 31 December	**282,703,763**	**42,699,616**
Loss allowance		
As at 1 January	212,338	233,422
Charge for the year (Note 9)	258,967	88,006
Reversal for the year (Note 9)	-	(109,090)
Gross carrying amount as at 31 December	**471,305**	**212,338**

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 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**

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 2021				
As at 1 January 2021	1,247,301,847	87,302,560	104,480,328	1,439,084,735
New financial assets originated or purchased	1,309,655,841	-	-	1,309,655,841
- Transfer from stage 1	(116,935,011)	93,352,104	23,582,907	-
- Transfer from stage 2	7,869,261	(13,685,408)	5,816,147	-
- Transfer from stage 3	664,810	4,635	(669,445)	-
Payments and assets derecognised	(859,665,925)	(63,534,226)	(47,567,083)	(970,767,234)
Written-off	(38,772)	(12,844)	(644,750)	(696,366)
Gross carrying amount as at 31 December 2021	**1,588,852,051**	**103,426,821**	**84,998,104**	**1,777,276,976**
Loss allowance				
As at 1 January 2021	12,524,430	11,499,356	50,346,167	74,369,953
New financial assets originated or purchased	25,489,223	-	-	25,489,223
- Transfer from stage 1	(18,256,274)	14,593,330	3,662,944	-
- Transfer from stage 2	970,507	(1,548,975)	578,468	-
- Transfer from stage 3	650,876	6,396	(657,272)	-
Payments and assets derecognised	(8,083,189)	(6,146,670)	(16,954,817)	(31,184,676)
Written-off	(38,772)	(12,844)	(644,750)	(696,366)
Impact of exposure change, inputs and models used for ECL calculation	(3,292,164)	5,166,401	5,866,844	7,741,081
Gross carrying amount as at 31 December 2021	**9,964,637**	**23,556,994**	**42,197,584**	**75,719,215**

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

Debt instruments at amortised cost

	2022 Total Stage 1 MNT'000	2021 Total Stage 1 MNT'000
As at 1 January	927,907,925	1,207,367,188
New financial assets originated or purchased	588,620,125	927,907,925
Payments and assets derecognised	(918,839,751)	(1,207,367,188)
Gross carrying amount as at 31 December	**597,688,299**	**927,907,925**
Loss allowance		
As at 1 January	1,193,410	-
Charge for the year (Note 9)	1,023,093	1,193,410
Reversal for the year (Note 9)	(915,891)	-
Gross carrying amount as at 31 December	**1,300,612**	**1,193,410**

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	2022 MNT'000	2021 MNT'000
Loans and advances to customers at amortised cost	1,974,586,235	1,777,276,976
Debt instruments at amortised cost	597,688,299	927,907,925
BoM current accounts and due from banks	869,357,755	467,376,826
Loan commitments	67,877,920	98,328,464
Contingent liabilities	68,904,112	64,682,406
Other assets	17,903,231	8,310,539
Total	**3,596,317,552**	**3,343,883,136**

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	2022 MNT'000	%	2021 MNT'000	%
Sovereign	724,717,540	83.4	424,677,210	90.9
Banking	144,640,215	16.6	42,699,616	9.1
Total	**869,357,755**	**100.0**	**467,376,826**	**100.0**

31. Risk management (Contd.)

31.2 Credit risk (Contd.)

Loans and advances to customers at amortised cost

Concentration by sector	2022 MNT'000	%	2021 MNT'000	%
Consumption	431,123,320	21.8	594,931,071	33.5
Trading	474,192,770	24.0	396,533,749	22.3
Deposit backed	293,867,803	14.9	212,365,724	11.9
Other	239,129,761	12.1	173,824,414	9.8
Production	129,869,847	6.6	132,891,150	7.5
Mortgage	125,909,041	6.4	97,240,114	5.5
Services	105,457,041	5.3	65,813,962	3.7
Construction	109,762,719	5.6	57,336,637	3.2
Mining	50,574,840	2.6	34,334,255	1.9
Agricultural	14,699,093	0.7	12,005,900	0.7
Total	**1,974,586,235**	**100.0**	**1,777,276,976**	**100.0**

Debt instruments at amortised cost

Concentration by sector	2022 MNT'000	%	2021 MNT'000	%
Sovereign	577,171,150	96.6	907,686,267	97.8
Corporate	20,517,149	3.4	20,221,658	2.2
Total	**597,688,299**	**100.0**	**927,907,925**	**100.0**

Loan commitments

Concentration by sector	2022 MNT'000	%	2021 MNT'000	%
Retail				
Micro business loan	11,230,127	16.5	10,975,903	11.2
Business loan	7,589,537	11.2	10,587,845	10.8
Unsecured loan	8,358,818	12.3	8,988,869	9.1
SME and Corporate				
Trading	23,542,767	34.7	41,018,449	41.6
Production	3,671,717	5.4	19,231,950	19.6
Construction	1,382,731	2.0	5,855,247	6.0
Other	248,910	0.4	1,009,031	1.0
Services	1,355,719	2.0	506,443	0.5
Mining	10,497,594	15.5	154,727	0.2
Total	**67,877,920**	**100.0**	**98,328,464**	**100.0**

Financial guarantees (un-funded)

Guarantees	2022 MNT'000	%	2021 MNT'000	%
Trading	10,552,601	15.3	19,653,605	30.4
Production	2,310,148	3.4	14,133,894	21.9
Construction	40,186,557	58.3	13,321,709	20.6
Mining	1,141,483	1.7	8,950,069	13.8
Services	4,810,599	7.0	7,671,292	11.9
Other	9,763,536	14.1	943,011	1.4
Agricultural	139,188	0.2	8,826	-
Total	**68,904,112**	**100.0**	**64,682,406**	**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.

Collateral type:	2022 MNT'000	2021 MNT'000
Property	2,358,971,925	2,096,959,501
Goods in turnover	436,870,443	641,025,881
Vehicles	561,564,870	493,263,960
Cash deposits	488,472,032	362,215,059
Other & Unsecured	433,535,081	285,260,982
Equipment	44,025,732	72,392,204
Total	**4,323,440,083**	**3,951,117,587**

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.)

	2022				2021			
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	743,489,014	-	-	**743,489,014**	441,630,284	-	-	**441,630,284**
Good	125,868,741	-	-	**125,868,741**	25,746,542	-	-	**25,746,542**
Total gross	869,357,755	-	-	**869,357,755**	467,376,826	-	-	**467,376,826**
Loss allowance	(875,401)	-	-	**(875,401)**	(390,116)	-	-	**(390,116)**
Carrying value	**868,482,354**	**-**	**-**	868,482,354	**466,986,710**	**-**	**-**	466,986,710
Loans and advances to customers at amortised cost								
Excellent	715,057,889	-	-	**715,057,889**	431,788,191	-	-	**431,788,191**
Good	208,522,385	-	-	**208,522,385**	153,654,959	-	-	**153,654,959**
Satisfactory	858,398,911	-	-	**858,398,911**	723,990,009	-	-	**723,990,009**
Monitoring	42,364,958	67,371,967	-	**109,736,925**	279,418,892	103,426,821	-	**382,845,713**
Impaired	-	-	82,870,125	**82,870,125**	-	-	84,998,104	**84,998,104**
Total gross	1,824,344,143	67,371,967	82,870,125	**1,974,586,235**	1,588,852,051	103,426,821	84,998,104	**1,777,276,976**
Loss allowance	(11,006,127)	(15,870,423)	(47,657,058)	**(74,533,608)**	(9,964,637)	(23,556,994)	(42,197,584)	**(75,719,215)**
Carrying value	**1,813,338,016**	**51,501,544**	**35,213,067**	1,900,052,627	**1,578,887,414**	**79,869,827**	**42,800,520**	1,701,557,761
Debt instruments at amortised cost								
Good	597,688,299	-	-	**597,688,299**	927,907,925	-	-	**927,907,925**
Total gross	597,688,299	-	-	**597,688,299**	927,907,925	-	-	**927,907,925**
Loss allowance	(1,300,612)	-	-	**(1,300,612)**	(1,193,410)	-	-	**(1,193,410)**
Carrying value	**596,387,687**	**-**	**-**	596,387,687	**926,714,515**	**-**	**-**	926,714,515
Loan Commitment								
Excellent	8,499,348	-	-	**8,499,348**	10,437,317	-	-	**10,437,317**
Good	3,534,622	-	-	**3,534,622**	262,916	-	-	**262,916**
Satisfactory	23,432,640	-	-	**23,432,640**	38,617,666	-	-	**38,617,666**
Monitoring	32,288,265	16,418	-	**32,304,683**	47,813,768	1,160,287	-	**48,974,055**
Impaired	-	-	106,627	**106,627**	-	-	36,510	**36,510**
Total gross	67,754,875	16,418	106,627	**67,877,920**	97,131,667	1,160,287	36,510	**98,328,464**
Loss allowance	(133,467)	(41)	(18,746)	**(152,254)**	(254,330)	(10,487)	(11,840)	**(276,657)**
Carrying value	**67,621,408**	**16,377**	**87,881**	67,725,666	**96,877,337**	**1,149,800**	**24,670**	98,051,807

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

	2022 Gross carrying amount MNT'000	2022 Loss allowance MNT'000	2021 Gross carrying amount MNT'000	2021 Loss allowance MNT'000
0-30	51,297,666	1,988,596	38,493,209	1,686,340
31-60	8,161,724	921,484	33,489,627	10,661,130
61-90	8,992,952	2,918,026	5,408,682	767,522
91-180	7,255,282	3,974,759	12,910,494	4,418,466
More than 181 days	65,131,906	37,721,405	59,209,215	31,609,398
Total	**140,839,530**	**47,524,270**	**149,511,227**	**49,142,856**

Modified financial assets and liabilities

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

	2022 MNT,000	2021 MNT,000
Amortised cost of financial assets modified during the period	74,013,699	65,750,405
Amortised cost of financial liabilities modified during the period	70,575,049	57,448,428
Net modification loss (Note 9)	(2,576,223)	(1,755,888)

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 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**
At 31 December 2021								
Financial instruments at FVTPL								
Derivative financial instruments	-	30,036	62,895	7,197	270,922	-	371,050	371,050
Financial liabilities at amortised cost								
Due to banks	2,793,088	202,350	198,075	-	-	-	3,193,513	2,691,406
Due to customers	798,418,885	224,092,125	231,006,475	353,850,252	240,867,624	675,299,967	2,523,535,328	2,252,099,731
Borrowed funds	-	25,943,042	137,086,228	331,765,067	363,225,912	3,929,569	861,949,818	768,775,737
Debt securities issued	-	8,426,297	-	-	-	-	8,426,297	8,403,663
Lease liabilities	-	649,934	675,499	1,323,680	3,539,404	-	6,188,517	5,422,527
Other liabilities	-	9,670,266	3,972,817	18,466,286	9,639,519	6,567,767	48,316,655	36,042,229
Total	**801,211,973**	**269,014,050**	**373,001,989**	**705,412,482**	**617,543,381**	**685,797,303**	**3,451,981,178**	**3,073,806,343**
Contingent liabilities and commitments								
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**
At 31 December 2021								
Contingent liabilities (Note 28)	28,817,711	15,507,621	7,204,896	11,136,662	1,996,744	18,772	64,682,406	64,682,406
Commitments (Note 28)	258,751	1,618,575	11,167,014	10,805,930	74,460,572	17,622	98,328,464	98,328,464
Total	**29,076,462**	**17,126,196**	**18,371,910**	**21,942,592**	**76,457,316**	**36,394**	**163,010,870**	**163,010,870**

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 2022 and 31 December 2021.

Currency	2022 Change in basis points	2022 Sensitivity of net interest income MNT'000	2021 Change in basis points	2021 Sensitivity of net interest income MNT'000
USD	+120	(1,781,715)	+120	108,186
MNT	+120	(1,811,986)	+120	1,575,075
USD	-120	1,781,715	-120	(108,186)
MNT	-120	1,811,986	-120	(1,575,075)

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

	2022 MNT'000	2021 MNT'000
31st December	99,866	7,982
Average Daily	102,451	23,302
Highest	435,839	165,647
Lowest	12,332	5,746

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, 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*

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, 2021. 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 2021					
Financial assets					
Cash and balances with BoM	24,357,667	204,624,383	14,795,076	4,536,255	248,313,381
Mandatory cash balances with BoM	108,488,656	105,742,648	-	-	214,231,304
Financial instruments at FVTPL					
Derivative financial instruments*	8,613,707	708,205,507	-	-	716,819,214
Financial instruments	76,288,953	-	-	-	76,288,953
Loans and advances to customers	90,000,608	-	-	-	90,000,608
Financial assets at FVTOCI					
Equity instruments	3,613,197	-	-	-	3,613,197
Financial assets at amortised cost					
Due from banks	232,540	24,551,750	507,033	17,195,955	42,487,278
Debt instruments	926,714,515	-	-	-	926,714,515
Loans and advances to customers	1,679,737,942	20,751,574	1,068,245	-	1,701,557,761
Other assets	5,269,402	1,398,069	10,832	13,947	6,692,250
Total financial assets	**2,923,317,187**	**1,065,273,931**	**16,381,186**	**21,746,157**	**4,026,718,461**
Financial liabilities					
Financial instruments at FVTPL					
Derivative financial instruments*	659,420,754	8,546,400	-	-	667,967,154
Financial liabilities at amortised cost					
Due to banks	740,978	1,910,779	26,236	13,413	2,691,406
Due to customers	1,814,662,647	399,263,760	16,368,669	21,804,655	2,252,099,731
Borrowed funds	151,060,255	617,715,482	-	-	768,775,737
Debt securities issued	-	8,403,663	-	-	8,403,663
Lease liabilities	5,422,527	-	-	-	5,422,527
Other liabilities	31,664,329	3,946,154	-	431,746	36,042,229
Total financial liabilities	**2,662,971,490**	**1,039,786,238**	**16,394,905**	**22,249,814**	**3,741,402,447**
Net position	**260,345,697**	**25,487,693**	**(13,719)**	**(503,657)**	**285,316,014**

** 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 9,189 million (2021: MNT 34,497 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% (2021: 9%) and risk weighted capital ratio of at least 12% (2021: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics. The capital adequacy ratios of the Bank as at 31st December were as follows:

	2022 MNT'000	2021 MNT'000
Core capital ratio	20.03%	17.11%
Risk weighted capital ratio	20.03%	17.11%
Tier I capital		
Ordinary shares	100,000,000	100,000,000
Share premium	1,817,773	1,817,773
Other reserves	11,439,408	11,439,408
Retained profits	278,161,784	197,574,658
Total Tier I Capital	391,418,965	310,831,839
Tier II capital		
Other	-	-
Total Tier II Capital	-	-
Total capital /capital base	**391,418,965**	**310,831,839**

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

	2022		2021	
%	Risk Assets MNT'000	Weighted MNT'000	Risk Assets MNT'000	Weighted MNT'000
0	1,441,034,798	-	1,425,202,329	-
20	225,199,784	45,039,957	54,376,857	10,875,371
50	393,721,857	196,860,929	393,400,654	196,700,327
100	1,938,338,900	1,657,323,810	1,721,651,696	1,515,058,682
150	9,254,396	13,041,461	29,405,807	42,835,829
Adjustments:				
Operational risk		39,301,988		44,493,353
Foreign exchange risk		3,025,625		6,906,415
Total	**4,007,549,735**	**1,954,593,770**	**3,624,037,343**	**1,816,869,977**

33. Events after the reporting period

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.