GOLOMT BANK

International Financial Reporting Standards
Financial Statements reissued on 12 April 2024 and
Independent Auditor’s Report

31 December 2022

CONTENTS

GOLOMT BANK JSC

Corporate Information

Incorporation decision	Golomt Bank (the "Bank") was incorporated on 06 March 1995.	
Certificate and License	The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 05 December 2005. The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia.	
Board of Governors	Ch. Munkhtsetseg	*Chairwoman*
	Urs E. Schwarzenbach	*Member*
	D. Munkhtur	*Member*
	L. Bolormaa	*Member*
	O.Ganjoloo	*Member*
	J. Unenbat	*Member*
	López Abelló	*Independent Member*
	James B. Dwyer	*Independent Member*
	Alexander Picker	*Independent Member*
Executive Officers	K. Norihiko	*Chief Executive Officer*
	G. Ganbold	*President*
	T. Nyamsuren	*Deputy CEO and CRO*
	D. Badral	*Deputy CEO and CBO*
	M. Sainbileg	*Chief Information Officer*
	S. Munkhtuya	*Director of Financial Management Division*
	Z. Myagmardorj	*Director of Corporate Banking Division*
	Ts. Baigalmaa	*Director of Retail Business Division*
	M. Narankhuu	*Director of Credit Division*
	T. Otgon	*Director of Risk Management Division*
	G. Uyanga	*Director of Human Resource Management Division*
	B. Sodbolor	*Director of Treasury Division*
	N. Ochirkhuyag	*Director of Marketing and PR Division*
	A. Nyamsuren	*Director of Business Process Management Division*
	O. Battsengel	*Director of Information Technology Division*
	Yo. Purevbat	*Director of Operation Division*
	Kh. Purevdorj	*Director of Administration Division*
Registered office	Head Office of Golomt bank Sukhbaatar Square 5, P.O.Box 22 Ulaanbaatar 15160, Mongolia	
Auditors	PwC Audit LLC Central Tower, Floor 6, Suite 601 Sukhbaatar Square, SBD-8, Ulaanbaatar 14200, Mongolia	

Independent Auditor's Report

To the Shareholders of Golomt Bank JSC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Golomt Bank JSC (the "Bank") as at 31 December 2022, and the Bank's financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Emphasis of matter

We draw attention to Note 38.6 to these reissued financial statements, which describes the reason for the reissuance of the 2022 financial statements. The previous financial statements issued on 30 March 2023 have been amended to reflect certain revisions to financial risk management disclosures, as set out in Note 38. We issued our unmodified independent auditor's report on the previously issued financial statements on 30 March 2023. Following these changes, we provide this new report on the reissued financial statements. Our opinion is not modified in respect of this matter.

Our audit approach

Overview

Materiality	• Overall Bank materiality: Mongolian Tugrugs ("MNT") 7,600,855 thousand, which represents 1% of total revenue for the year ended 31 December 2022.
Key audit matters	• Assessment of expected credit losses allowance for loans and advances to customers made by management in accordance with the International Financial Reporting Standard 9, Financial Instruments (IFRS 9).

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Bank materiality	MNT 7,600,855 thousand
How we determined it	1% of total revenue for the year ended 31 December 2022
Rationale for the materiality benchmark applied	The Bank is a commercial banking institution and we have been looking for appropriate benchmark from the statement of profit or loss and other comprehensive income. The revenue (being interest income calculated using the effective interest method, other similar income, fee and commission income and gains less losses from trading in foreign currencies and precious metals) is considered as the most appropriate and relevant measure for the operations of the Bank. We chose 1% which is consistent with quantitative materiality thresholds used for the selected benchmark.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit loss (ECL) allowance for loans and advances to customers in accordance with IFRS 9, Financial Instruments. We considered ECL allowance for loans and advances to customers as a key audit matter due to the significance of loans and advances to customer balance and a complex financial reporting standard, which requires significant judgement to determine the ECL allowance. The Bank performed ECL assessment: • on an individual basis; • on a portfolio basis: same credit risk parameters (e.g. probability of default, loss given default) will be applied during the process of ECL calculations for the same homogeneous segments of the loan portfolio. Key areas of judgement included: • Classification of loans and advances to customers into stages in accordance with IFRS 9; • Key estimates and modelling assumptions used to estimate key risk parameters – probability of default, loss given default and exposure at default. Note 3.3 "Critical Accounting Estimates and Judgements in Applying Accounting Policies", Note 4 "Significant Accounting Policies", Note 12 "Loans and Advances to Customers" and Note 38 "Financial Risk Management" to the financial statements provide detailed information on the credit loss allowance.	In assessing the ECL allowance we have performed, among others, the following audit procedures: • We assessed the methodology and models for ECL allowance assessment developed by the Bank in order to evaluate its compliance with IFRS 9 requirements. We focused our procedures on: default definition, factors for determining a "significant increase in credit risk", classification of the loans and advances to customers to stages, and estimation of key risk parameters. • On a sample basis we evaluated and tested the design and operational effectiveness of the controls on the processes that identify overdue loans. • On a sample basis we performed an individual assessment of the ECL allowance levels to determine if they were appropriate considering the risk profile, credit risk and the macroeconomic environment. We considered trends in the economy and industries to which the Bank's borrowers are exposed. • On a sample basis, we assessed the Bank's estimated future cash flows from various scenarios and key assumptions, including the timing of collateral collection for individual ECL assessment. We assessed the relevance of the scenarios used and their probability, and calculated calculation of the present value of the cash flows. • On a sample basis, we assessed valuation of collaterals taken into account in the calculation of ECL. • On a sample basis we tested segmentation and allocation to stages. • To verify data accuracy and quality, on a sample basis, we tested the data used in the ECL calculation by reconciling to source data, i.e.

	loan agreements, collateral agreements and loan account statements etc.; • We assessed the appropriateness of model design and formula used in recalculation of the probability of default, loss given default and exposure at default for collective ECL. • We performed detailed analytical procedures over ECL calculation disaggregated by stages, segments, and industries that borrowers operate in. • On overall basis we checked the Bank's assessment of effect of forward looking information on the ECL level, in particular, we assessed whether forecasted macroeconomic variables were appropriate (such as GDP, inflation level, loan rate, and exchange rates), traced input data to the external sources and checked appropriateness of the model used; • We assessed the adequacy and appropriateness of disclosures for compliance with the IFRS.

Other information

Management is responsible for the other information. The other information comprises Annual report (but does not include the financial statements) and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 responsibilities for the audit of the financial statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Auditor's responsibilities for the audit of the financial statements (Continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Aigul Akhmetova.

12 April 2024

Ulaanbaatar, Mongolia

Signed by:

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:

Aigul Akhmetova
Partner
PricewaterhouseCoopers Audit LLC

In thousands of Mongolian Tugriks	Note	31 December 2022	31 December 2021
Assets			
Cash and balances with the Bank of Mongolia	7	1,142,404,090	694,954,420
Mandatory cash balances with the Bank of Mongolia	8	357,581,959	277,343,522
Due from other banks	9	1,566,963,380	1,056,447,510
Investments in debt securities	10	1,230,251,009	1,979,439,874
Investments in equity securities	11	22,513,491	18,472,715
Loans and advances to customers	12	3,697,633,345	3,339,174,837
Investment properties	13	10,276,475	17,427,586
Other assets	14	283,402,128	39,972,362
Derivative financial instruments	41	436,146,109	208,917,059
Intangible assets	15	20,948,388	17,848,672
Premises and equipment	16	151,367,641	150,019,342
Right of use assets	17	15,192,622	13,001,148
Repossessed collateral	18	43,191,321	106,953,168
Non-current assets classified as held for sale	19	6,687,575	74,084,536
Total assets		**8,984,559,533**	**7,994,056,751**
Liabilities			
Due to other banks	20	52,394,763	16,782,536
Customer accounts	21	5,743,297,867	5,463,543,390
Other borrowed funds	22	1,916,312,092	1,509,446,027
REPO arrangements	23	211,347,644	221,912,121
Current income tax liability	31	30,961,395	29,389,944
Deferred income tax liability	31	20,743,288	9,484,597
Lease liabilities	17	16,290,486	14,001,667
Other liabilities	24	131,306,235	70,834,446
Total liabilities		**8,122,653,770**	**7,335,394,728**
Equity			
Preferred shares	25	-	16,388,100
Share capital	25	202,164,327	168,638,148
Share premium	25	301,481,120	169,486,044
Retained earnings		283,420,821	242,436,053
Other reserves		74,839,495	61,713,678
Total equity		**861,905,763**	**658,662,023**
Total liabilities and equity		**8,984,559,533**	**7,994,056,751**

Approved for issue and signed on behalf of the Bank's management on 12 April 2024.

МОНГОЛ УЛС
ГОЛОМТ БАНК
ХК
GOLOMT BANK

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

In thousands of Mongolian Tugriks	Note	2022	2021
Interest income calculated using the effective interest method	26	576,384,931	526,486,180
Other similar income	26	33,524,234	28,291,422
Interest expense	26	(222,857,161)	(271,257,957)
Other similar expense	26	(1,481,221)	(1,560,592)
Net interest income		**385,570,783**	**281,959,053**
Credit loss allowance	12	(45,969,488)	(35,770,454)
Net interest income after credit loss allowance		**339,601,295**	**246,188,599**
Fee and commission income	27	84,131,978	62,493,142
Fee and commission expense	27	(39,961,185)	(21,714,228)
Gains less losses from financial assets at fair value through profit or loss		7,326,760	1,695,813
Gains less losses from modification of borrowed fund at amortised cost		1,794,198	3,638,530
Losses less gains from disposal of financial assets at fair value through other comprehensive income		(48,339)	(626)
Gains less losses from financial derivatives		34,725,648	(21,818,582)
Gains less losses from trading in precious metals		7,815,364	4,785,518
Foreign exchange translation losses less gains		(10,060,088)	153,074
Gains less losses from trading in foreign currencies		58,228,967	20,398,503
Losses less gains from loans at fair value through profit or loss		(6,120,026)	(14,571,327)
Losses less gains from modification of financial assets measured at amortised cost, that did not lead to derecognition		(1,688,544)	(848,111)
Reversal of expected credit loss allowance of debt securities at amortised cost	10	4,181	(2,676)
Credit loss allowance for debt securities at fair value through other comprehensive income		(662,323)	(1,782,503)
Credit loss allowance of due from banks		(3,584,406)	13,591
Losses on initial recognition of assets at rates below market		(235,786)	(2,636,090)
Credit loss allowance of other assets	14	(868,016)	(539,852)
Gains less losses from non-current asset held for sale		5,413	(3,973,106)
Impairment provision charge for and loss from decrease in fair value of repossessed collateral	18	(96,897,798)	(78,887,826)
Provision (charge)/ reversal for guarantees and letters of credit		(509,336)	1,958,933
Losses less gains on revaluation of investment properties		(3,372,606)	(7,426,258)
Dividend received		32,813	204,394
Other operating income	28	1,154,973	3,835,000
Administrative and other operating expenses	29	(175,345,911)	(137,139,597)
Other (losses)/gains, net	30	(1,669,242)	(1,453,421)
Profit before tax		**193,797,984**	**52,570,894**
Income tax expense	31	(77,295,936)	(26,634,228)
Profit for the year		**116,502,048**	**25,936,666**
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive income:			
- Losses less gains arising during the year		(50,471,551)	2,680,637
- Gains less losses reclassified to profit or loss upon disposal		48,339	626
Income tax recorded directly in other comprehensive income		12,605,803	(670,316)
Items that will not be reclassified to profit or loss:			
Losses less gains on investments in equity securities at fair value through other comprehensive income	32	(558,251)	1,153,870
Income tax recorded directly in other comprehensive income	32	139,563	(288,468)
Other comprehensive income/loss		**(38,236,097)**	**2,876,349**
Total comprehensive income for the year		**78,265,951**	**28,813,015**
Basic earnings per share for profit attributable to the owners of the Bank	**34**	**163.80**	**35.92**
Diluted earnings per share for profit attributable to the owners of the Bank	**34**	**163.73**	**35.92**

In thousands of Mongolian Tugriks	Note	Ordinary share capital	Preferred share capital	Treasury preferred shares	Treasury shares	Share premium	Revaluation reserve for securities at FVTOCI	Revaluation reserve for premises	Other reserves	Retained earnings	Total equity
Balance at 1 January 2021		**42,240,037**	**25,778,900**	**(9,390,800)**	**(80,500)**	**291,843,805**	**(12,862,023)**	**7,495,543**	**75,680,019**	**210,853,485**	**631,558,466**
Profit for the year		-	-	-	-	-	-	-	-	25,936,666	**25,936,666**
Other comprehensive income		-	-	-	-	-	2,876,349	-	-	-	**2,876,349**
Total comprehensive income for 2021		-	-	-	-	-	**2,876,349**	-	-	25,936,666	**28,813,015**
Increase in nominal value of shares		126,720,111	-	-	(241,500)	(126,478,611)	-	-	-	-	**-**
Transfer of Revaluation reserve on investment in equity securities at FVTOCI to retained earnings upon disposal		-	-	-	-	-	9,349,580	-	-	(9,349,580)	**-**
Dividends declared and paid	33	-	-	-	-	-	-	-	-	(1,709,458)	**(1,709,458)**
Transfer of revaluation surplus on premises		-	-	-	-	-	-	(250,441)	-	250,441	**-**
Transfer to regulatory reserve		-	-	-	-	-	-	-	(20,575,349)	20,575,349	**-**
Other		-	-	-	-	4,120,850	-	-	-	(4,120,850)	**-**
Balance at 31 December 2021		**168,960,148**	**25,778,900**	**(9,390,800)**	**(322,000)**	**169,486,044**	**(636,094)**	**7,245,102**	**55,104,670**	**242,436,053**	**658,662,023**
Profit for the year		-	-	-	-	-	-	-	-	116,502,048	**116,502,048**
Other comprehensive income/(loss)		-	-	-	-	-	(38,236,097)	-	-	-	**(38,236,097)**
Total comprehensive income for 2022		**-**	**-**	**-**	**-**	**-**	**(38,236,097)**	**-**	**-**	**116,502,048**	**78,265,951**
Share issue		33,526,179	-	-	-	131,788,974	-	-	-	-	**165,315,153**
Acquisition of treasury shares		-	-	(16,388,100)	-	-	-	-	-	(14,271,600)	**(30,659,700)**
Share retirement		(322,000)	(25,778,900)	25,778,900	322,000	206,102	-	-	-	(206,102)	**-**
Transfer of Revaluation reserve on investment in equity securities at FVTOCI to retained earnings upon disposal		-	-	-	-	-	3,065,729	-	-	(3,065,729)	**-**
Dividends declared and paid	33	-	-	-	-	-	-	-	-	(555,404)	**(555,404)**
Transfer of revaluation surplus on premises		-	-	-	-	-	-	(250,440)	-	250,440	**-**
Transfer to regulatory reserve		-	-	-	-	-	-	-	47,699,164	(47,699,164)	**-**
Share-based payments		-	-	-	-	-	-	-	847,461	-	**847,461**
Other		-	-	-	-	-	-	-	-	(9,969,721)	**(9,969,721)**
Balance at 31 December 2022		**202,164,327**	**-**	**-**	**-**	**301,481,120**	**(35,806,462)**	**6,994,662**	**103,651,295**	**283,420,821**	**861,905,763**

As of 31 December 2022, other reserves mainly consist of the regulatory reserves required by Bank of Mongolia (BOM). In accordance with the regulation of the BOM, it is required to recognize the excess difference of credit loss allowance and provision for repossessed collaterals determined in accordance with the regulations of BOM ("BOM impairment provision") in comparison to credit loss allowance and provision for repossessed collaterals determined under IFRS as a reserve in the statement of changes in equity. This reserve is created as appropriation of the Bank's retained earnings, as such treatment is in accordance with IFRS and the new accounting regulations of the Bank of Mongolia and represents regulatory reserve.

The notes set out on pages 6 to 133 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	Note	2022	2021
Cash flows from operating activities			
Profit before tax		**193,797,984**	**52,570,894**
Adjustments for non-cash income and expenses:			
Credit loss allowance	12	45,969,488	35,770,454
Losses less gains from financial assets at fair value through other comprehensive income		48,339	626
Gains less losses from financial assets at fair value through profit or loss		(7,326,760)	(1,695,813)
Gains less losses from modification of borrowed fund at amortised cost		(1,794,198)	(3,638,530)
Losses less gains from financial derivatives	41	(34,725,648)	21,818,582
Losses less gains from modification of financial assets measured at amortised cost, that did not lead to derecognition		1,688,544	848,111
Losses less gains of loans at fair value through profit or loss		6,120,026	14,571,327
Reversal of credit loss allowance of due from other banks		3,584,406	(13,591)
Impairment of debt securities at fair value through other comprehensive income		662,323	1,782,503
Credit loss allowance of debt securities at amortised cost		(4,181)	2,676
Losses on initial recognition of assets at rates below market		235,786	2,636,090
Losses on disposal of premises and equipment and investment properties		1,669,242	1,453,421
Foreign exchange (gains)/losses		10,060,088	(153,074)
Credit loss allowance for other assets	14	868,016	539,852
Reversal of provision for credit related commitment		509,336	(1,958,933)
Losses less gains from revaluation of investment properties	13	3,372,606	7,426,258
Losses less gains from non-current asset held for sale	19	(5,413)	3,973,106
Depreciation expense	16,17	27,077,479	24,555,445
Amortisation expense	15	6,063,280	3,837,579
Property and equipment written off	16	66	18,397
Impairment provision charge for and loss from decrease in fair value of repossessed collateral	18	96,897,798	78,887,826
Interest income	26	(609,909,165)	(554,777,602)
Interest expense	26	224,338,382	272,818,549
Cash flows used in operating activities before changes in operating assets and liabilities		**(30,802,176)**	**(38,725,847)**
(Increase) in mandatory cash balances with the Bank of Mongolia		(79,911,039)	(33,853,818)
(Increase) / decrease in due from other banks		(290,629,936)	95,873,906
Decrease / (increase) in debt securities at fair value through profit or loss		12,343,979	(2,188,600)
(Increase) / decrease in equity securities at fair value through profit or loss		(95,171)	1,029,277
(Increase) in loans and advances		(567,177,200)	(514,728,118)
(Increase) / decrease in other assets		(14,297,782)	80,328,375
Decrease / (increase) in repossessed collateral		85,278,199	(44,115,715)
(Increase) / decrease in non-current assets classified as held for sale		(44,592,847)	76,700,121
Increase in due to banks		31,075,728	2,102,465
Increase in customer account		284,574,136	256,942,420
Increase / (decrease) in other liabilities		60,809,914	(28,003,168)
Net cash (used in) operating activities before tax and interest		**(553,424,195)**	**(148,638,702)**
Income tax paid		(51,720,490)	(1,075,077)
Interest income received		616,840,938	557,033,126
Interest income received on investments at fair value through profit or loss		4,715,191	8,317,135
Interest paid		(225,243,451)	(382,483,341)
Net cash (used in)/from operating activities		**(208,832,007)**	**33,153,141**

The notes set out on pages 6 to 133 form an integral part of these financial statements.

In thousands of Mongolian Tugriks	**Note**	**2022**	**2021**
Cash flows from investing activities			
Acquisition of debt securities at fair value through other comprehensive income		(112,280,200)	(93,473,456)
Proceeds from disposal of equity securities at fair value through other comprehensive income		138,979	12,837,742
Proceeds from disposal of investment property		7,516,430	18,648,928
Acquisition of premises and equipment	16	(21,121,361)	(25,795,226)
Proceeds from disposal of premises and equipment	16	508,280	704,525
Acquisition of intangible assets	15	(9,162,995)	(4,931,907)
Prepayment for non-current assets	14	(230,000,000)	-
Net cash used in investing activities		**(364,400,867)**	**(92,009,394)**
Cash flows from financing activities			
Proceeds from repo arrangements		424,211,521	562,558,030
Repayment of repo arrangements		(447,033,190)	(367,560,485)
Proceeds from drawdown of other borrowed funds	22	1,201,130,206	1,205,497,008
Repayment of other borrowed funds	22	(970,908,033)	(854,325,119)
Repayment of principal of lease liabilities		(5,758,791)	(5,205,254)
Issue of ordinary shares		165,315,153	-
Acquisition of treasury shares		(30,659,700)	-
Dividends paid	33	(555,404)	(1,709,458)
Other disbursement		(6,600,000)	-
Net cash from financing activities		**329,141,762**	**539,254,722**
Effect of exchange rate changes on cash and cash equivalents		84,779,712	7,540,250
Net (decrease) / increase in cash and cash equivalent		**(159,311,400)**	**487,938,719**
Cash and cash equivalents at the beginning of the period		2,434,725,888	1,946,787,169
Cash and cash equivalents at the end of the period	7	**2,275,414,488**	**2,434,725,888**

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

Noncash transfers from Loans and advances to Repossessed collaterals, from Repossessed collaterals to Non-current asset held for sale and investment properties were excluded from the Statement of Cash Flows. Refer to Note 4.29, Note 13, Note 18 and Note 19.

The notes set out on pages 6 to 133 form an integral part of these financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The previously issued financial statements prepared for the year ended 31 December 2022 for Golomt Bank ("the Bank") were authorized on 30 March 2023. These financial statements have been prepared to replace those previously issued financial statements for the year ended 31 December 2022, to correct certain disclosures as described in Note 38.6
.
As of 31 December 2022, the Bank's immediate parent company is Golomt Financial Group LLC (31 December 2021: Golomt Financial Group LLC). The Bank was incorporated and is domiciled in Mongolia. The Bank is a joint-stock company and was established in accordance with the legislation of Mongolia.

Mr. Bayasgalan.D, the owner of Golomt Financial Group as of 31 December 2022, represents the ultimate controlling party of the Bank as of 31 December 2022 and 31 December 2021.

The Bank's shareholders as of 31 December 2022 and 31 December 2021 are disclosed in Note 25.

The Bank holds the State Registration Certificate No. 9016001014 with registration No.2075377 granted by the State Registration Office of Mongolia on 5 December 2005. The Bank holds a full banking license No. 25 dated 6 March 1995 issued by the Bank of Mongolia, Central Bank of Mongolia.

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

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

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

At 31 December 2022, the Bank had 77 branches within Mongolia (31 December 2021: 76 branches). Also, as at 31 December 2022 the Bank had 25 sub-branches (31 December 2021: 24 sub-branches).

The number of Bank employees as at 31 December 2022 was 2,266 (31 December 2021: 2,226).

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

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

A glossary of various abbreviations used in this document is included in Note 47.

2 Operating Environment of the Bank

2.1 General

Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. The export of raw materials from the mining sector is the mainstay of the economy due to its mineral resources, including coal and copper, and its low level of industrialization. After growing close to 6 percent on average between 2017 and 2019, the Mongolian economy has contracted amid adverse impact of the COVID-19 pandemic, posting 4.6% economic decline in 2020 and then has experienced slight recovery in 2021 by 1.6 %. The actual GDP growth as of 31 December 2022 was 4.8% according to the National Statistic's Office.

On 21 July 2022, Standard & Poor's credit rating reaffirmed Mongolia's credit rating at "B" with a stable outlook. Moody's credit rating for Mongolia stayed at B3 stable outlook. Fitch's credit rating for Mongolia was last reported at B with stable outlook.

In 2022, Mongolia experienced high inflation pressure, which was exacerbated by the impact of the war in Ukraine and heavily impacted food and fuel pirce mainly. Furthermore, China's zero-Covid policy and weaker economic activity have significantly hit Mongolia's key exports to China because of land border closures, supply chains disruptions and poor commodity demand. Mongolian national currency, Mongolian tugriks has depreciated against US Dollar 21% as of 31 December 2022 compared to the exchange rate as of 31 December 2021. In response, the central bank has sharply tightened its monetary policy by increasing its policy rate step by step to 13% by December of 2022, from 6% as of January 2022.

Mongolia's expected real GDP growth is forecasted to accelerate to 5% in 2023. However, lingering border frictions with China, weaker global economic prospects, and higher prices of imports due to the war in Ukraine are expected to constrain the economic recovery. The fact that China has finally opened its borders in early January 2023 and the planned start of underground mine production of Oyu-Tolgoi in the first half of 2023 provides a positive prospect to the economic outlook for 2023 and further.

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

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

One of the highlights for the banking system was the first initial public offering of two major banks namely State bank and Golomt bank. According to the new banking law, the top five banks are obligated to initiate public offerings by the end of June 2023 and all banks are required to reduce maximum single ownership concentration to 20%, by 31 December 2023.

2 Operating Environment of the Bank (continued)

2.2 Currency transactions

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

Date	USD	EUR
12 April 2024 – date of issuance	**3,376.10**	**3,626.94**
31 December 2022	3,444.60	3,669.02
31 December 2021	2,848.80	3,222.99
31 December 2020	2,849.51	3,495.78
31 December 2019	2,733.52	3,061.00
31 December 2018	2,642.92	3,028.65

3 Basis of Presentation

3.1 General principles

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

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

3.2 Functional and presentation currency

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

3.3 Critical accounting estimates and judgments in applying accounting policies

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

3.3.1 ECL measurement

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

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

3 Basis of Preparation (continued)

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

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

The Bank used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. The most significant forward-looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2022:

			Assumption for:		
Variable	**Scenario**	**Assigned weight**	**2022**	**2023**	**2024**
GDP growth	Base	67.5%	2.8%	5.6%	5.0%
	Upside	18.5%	3.3%	6.8%	6.6%
	Downside	14.0%	1.6%	-1.5%	2.9%
Inflation rate	Base	67.5%	12.2%	10.4%	7.1%
	Upside	18.5%	11.1%	8.9%	7.0%
	Downside	14.0%	13.4%	12.7%	8.4%
MNT/USD /YoY growth/	Base	67.5%	20.9%	6.9%	6.8%
	Upside	18.5%	20.3%	5.0%	4.7%
	Downside	14.0%	22.7%	7.2%	7.5%
Loan rate	Base	67.5%	15.4%	17.7%	17.1%
	Upside	18.5%	15.4%	17.2%	16.8%
	Downside	14.0%	15.4%	18.4%	18.3%

The assumptions and assigned weights were as follows at 31 December 2021:

			Assumption for:		
Variable	**Scenario**	**Assigned weight**	**2022**	**2023**	**2024**
GDP growth	Base	65%	5.5%	6.4%	6.9%
	Upside	18%	10.1%	7.12%	8.03%
	Downside	17%	1.7%	1.9%	3.4%
Inflation rate	Base	65%	10.3%	0.7%	7.8%
	Upside	18%	9.8%	1.9%	7.1%
	Downside	17%	11.0%	-0.8%	8.7%
MNT/USD /YoY growth/	Base	65%	2.4%	1.1%	-3.2%
	Upside	18%	5.0%	-5.7%	-1.5%
	Downside	17%	1.0%	6.3%	-1.3%
Loan rate	Base	65%	14.7%	14.9%	15.5%
	Upside	18%	14.8%	15.1%	15.9%
	Downside	17%	14.6%	14.7%	15.0%

Bank increased weight of baseline scenario by decreasing the downside scenario mainly due to the fact that export situation has recovered relative to 2021. By the end of 2021, Mongolia exported total quantity of 15 million tons of coal while in 2022, it reached more than 30 million tons signalling the market that Mongolia's economy began to recover. IMF increased Mongolia's economic growth outlook from 1% to 2.5% in October to reflect the changes of recovery.

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

For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

3 Basis of Preparation (continued)

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

For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both retail and commercial, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting-point and the expected end-point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (e.g. the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

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

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios.

The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. In order to determine the SICR, the management considers certain criteria based on its judgment. Refer to Note 38. SICR criteria are:

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

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by MNT 4,488,994 thousand as of 31 December 2022 (31 December 2021: higher by MNT 12,540,769 thousand). Decrease from 2021 relates to parameters for ECL calculation is improved in 2022 including recovery rates and collateral value.

3 Basis of Preparation (continued)

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

3.3.4 Business model assessment

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

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

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

The Bank identified approximately 82% (31 December 2021: 91%) of debt securities as a liquidity portfolio and classified as held to collect and sell, while the rest of the debt securities is classified as held to collect on maturity based on the assumption that these securities would only be sold in a stress case scenario.

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

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

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

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

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

3 Basis of Preparation (continued)

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

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

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

3.3.6 Modification of financial assets

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

3.3.7 Write-off policy

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

3.3.8 Initial recognition of related party transactions

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

3.3.9 Valuation of premises and investment properties

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

Fair value of the Bank's investment property and premises are determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Earned rental income from investment property is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property and premises are recorded in profit or loss for the year and presented separately. Information of assumptions and valuation technique used in determining fair value are disclosed in Note 42.

3 Basis of Preparation (continued)

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

3.3.10 Determining lease term

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

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

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

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

The borrowings from international financial institutions or governments organizations and the Bank of Mongolia meeting the above criteria amounted to MNT 491,914,382 thousand as at 31 December 2022 (31 December 2021: MNT 395,013,299 thousand) and are disclosed in Note 22.

3.3.12 Mongolian Mortgage Corporation LLC (MIK) securitisation transaction

During 2022, the Bank participated in 4 tranches of MIK securitisation transaction. The Bank sold the 5%,6%,8% mortgage loans to MIK SPC29, MIK SPC30, MIK SPC31, MIK SPC32 special purpose companies wholly owned by the MIK HFC LLC for which it received residential mortgage-backed securities (RMBS) Senior RMBS notes bearing interest at 1.0%, 4.5%, 9.0%,13.0% and Junior RMBS notes bearing interest at 9.0%, 10.5%. The loans have been purchased by above mentioned MIK-SPCs on a non-recourse basis. The principal of the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. The Bank has been appointed as the Servicer of the respective loans sold and receives a service fee of 2.5% on amount collected for performing this service. Residual net assets in MIK-SPCs, if any, belong to the shareholder of MIK-SPC i.e., MIK HFC LLC.

On the other hand, any shortfall in the net assets of MIK-SPC would be borne by the Senior and Junior RMBS holders (proportionally in accordance with their seniority in the right of payment and priority) with no recourse to MIK. As part of this agreement the Senior RMBS notes obtained by the Bank were used to repay the 1%, 2% and 4% funding received from the Bank of Mongolia for financing the original 5%, 6% and 8% mortgage lending.

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

3 Basis of Preparation (continued)

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

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

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

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

During 2022 the Bank participated in 3 tranches of SFC securitisation transaction. The Bank sold the 10-10.5% non-mining export sector, manufacturing and small and medium enterprises' loan portfolio to SFC SPC2, SFC SPC3, SFC SPC4 special purpose companies wholly owned by the SFC LLC for which it received asset-backed securities (ABS) Junior and Senior ABS notes bearing interest at 9.0% and 9.5% respectively.

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

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

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

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

Gains and losses arising from the changes in fair value of derivatives are not regulated by the current tax legislation or by the supporting supplementary tax regulations. The current legislation only regulates the tax treatment of foreign exchange gains and losses generally. Based on the Corporate Income Tax Law realized foreign exchange gains are taxable, realized foreign exchange losses are deductible, while taxation of unrealized foreign exchange gains and losses is deferred until the period in which they become realized. As a result, unrealized gains or losses arising from the changes in fair value of financial derivatives (including long-term swaps) and unrealised foreign exchange differences arising from the related long-term borrowings from international financial organizations are treated as non-taxable income and non-deductible expenses until they become realized (i.e., until the maturity of the borrowings), thus creating a taxable or deductible temporary difference. As a result, net deferred tax liability of MNT 50,744,204 thousand is recognized as of 31 December 2022 (31 December 2021: MNT 38,857,755 thousand), refer to Note 31.

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

3 Basis of Preparation (continued)

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

Given that tax legislation and supporting regulations do not explicitly address tax treatment of the realized and unrealized gains and losses from financial derivatives and require differentiation of unrealized and realized foreign exchange gains on all financial assets and liabilities for tax purposes, management has assessed the risk that tax authorities may take different position and treat unrealized gains from open derivative positions as taxable income or otherwise challenge the Bank's accounting policy (Note 4) and tax treatment and impose additional tax obligation.

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

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

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

Apart from assessing impairment provision in accordance with IFRS requirements, the Bank determines impairment provision for the purposes of reporting to the Bank of Mongolia (central bank) based on classification of loans based on provisioning guidelines in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the Bank of Mongolia and the Ministry of Finance. In accordance with these regulations, the Bank is required to determine the quality of loans and advances based on quantitative and qualitative factors. Quantitative factors include time characteristics, including past due status (i.e., delays in repayment). Loans are classified as follows: Performing, In Arrears, and Non-Performing. Non-performing loans are further classified as Sub-Standard, Doubtful and Loss. Each category requires a specific reserve percentage. According to tax regulation on corporate income tax, any impairment provision charges for the performing loans represent non-deductible expenses for the period. The Bank has determined impairment provision on performing loans as of 31 December 2022, as a part of its assessment of impairment provision in accordance with IFRS requirements and treated related impairment provision charges as a base for deferred tax.

Management has performed detailed review of the accounting and tax treatment of charges and releases of impairment provision on performing loans, as well as of tax impact of difference between Bank of Mongolia and IFRS provision and has concluded that such items represent temporary differences and thus related deferred tax assets of MNT 4,776,735 thousands as of 31 December 2022 (31 December 2021: deferred tax asset of MNT 3,691,282 thousands) has been recognized in these financial statements.

Impairment provision per Bank of Mongolia which is tax deductible expense is higher than IFRS provision as of 31 December 2022 and 31 December 2021.

Management's view is that income from release of provision on performing loans represents non-taxable income and that related deferred tax asset is recoverable in the future. Given that tax regulations do not explicitly address tax treatment of income from release of provision on performing loans and that Mongolian tax regulations can be subject to different interpretations (refer to Note 31), management has assessed the risk that tax authorities may take different position and treat income from release of impairment provision as taxable income, in which case recognized deferred tax asset would not be recoverable.

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

3 Basis of Preparation (continued)

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

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

As a result, the Bank has recognized deferred tax liability of MNT 9,370,561 thousands as of 31 December 2022 (31 December 2021: MNT 11,852,602 thousands). Management has assessed the risk that tax authorities may take different position and treat related interest income as taxable income or otherwise challenge the Bank's tax treatment and impose additional tax obligation. However, based on all available information at the date of issuance of this financial information, including current practices of tax authorities, results of previous tax inspections, and practices applied in the Mongolian banking sector, management believes that such risk is remote. For more details on income tax, refer to Note 31.

3.3.16 Fair value of long-term derivatives

The Bank entered into a long-term cross currency interest rate SWAP arrangement with the Bank of Mongolia with start dates from 2018 to 2022. These derivatives are measured at fair value through profit and loss. The arrangement is to swap MNT/USD on regular basis based on interest rate formula with maturities ranging from 1 year to 8 years. The Bank developed a valuation model for assessing a fair value of such swap instruments. The model is fully based on observable market data. The Bank considers the fair value of swaps assessed based on the model to be a Level 2 valuation, and hence the Day 1 gain on such a derivative instrument is recognized on the statement of profit and loss.

Management used their best estimate in fair value estimation of long-term cross currency interest rate swaps at the year end. Information about assumptions used for valuation of fair value of instruments is disclosed in Note 42.

3.3.17 Initial recognition of other financial instruments below market rate

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

3.3.18 Fair value decrease of financial repossessed collaterals

Financial assets at fair value as of 31 December 2022 represent shares (equity securities) in a company which the Bank has acquired in the process of settlement of overdue loans. The Bank is currently negotiating to sell shares of this company and assessed fair value of those shares based on potential selling price of ongoing negotiation and historical haircut applied for similar transaction in the past. As a result, fair value loss of MNT 45,272,561 thousands (2021: MNT 30,337,628 thousands) has been recognised in 2022. Please refer to the Note 18.

3 Basis of Preparation (continued)

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

3.3.19 Unrecognised deferred tax asset

Unrecognised potential deferred tax asset in 2022 and in 2021 (Note 31) relates to fair value decrease for financial repossessed collaterals (Note 3.3.18) and impairment provision for non-financial repossessed collateral. As of 31 December 2022, the Bank believes that the provision for non-financial repossessed collateral and fair value loss on financial repossessed collateral will not be recovered upon sale of the assets therefore potential deferred tax assets will not be recoverable in the future. Therefore, management believes that the Bank would not be able to utilise the deferred tax asset if booked from fair value loss or provision on the repossessed assets, therefore did not recognise the related potential deferred tax asset as at 31 December 2022 and as at 31 December 2021.

4 Significant Accounting Policies

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

4.1 Financial assets

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

(i) Key measurement terms

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

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

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

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

4 Significant Accounting Policies (continued)

4.1 Financial assets (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 42.

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

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

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

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

(ii) Initial recognition of financial instrument

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

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

4 Significant Accounting Policies (continued)

4.1 Financial assets (continued)

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

(iii) Classification and subsequent measurement – measurement categories

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

(iv) Classification and subsequent measurement – business model

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

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

(v) Classification and subsequent measurement – cash flow characteristics

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

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

(vi) Reclassification

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

(vii) Credit loss allowance for ECL

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

4 Significant Accounting Policies (continued)

4.1 Financial assets (continued)

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

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

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

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

(viii) Write-off

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

(ix) De-recognition of financial assets

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

4 Significant Accounting Policies (continued)

4.1 Financial assets (continued)

(x) Modification

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

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

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

4.2 Foreign currency translation

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

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

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

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

	2022	**2021**
Mongolian national Tugriks/US Dollar	3,444.60	2,848.80
Mongolian national Tugriks/EURO	3,669.02	3,222.99
Mongolian national Tugriks/British Pound Sterling	4,156.60	3,836.19
Mongolian national Tugriks/Chinese Yuan	495.40	447.15
Mongolian national Tugriks/Russian Rubble	48.85	38.34

4.3 Cash and cash equivalents

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

4 Significant Accounting Policies (continued)

4.3 Cash and cash equivalents (continued)

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

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

4.4 Mandatory cash balances with the Central Bank of Mongolia

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

4.5 Due from other banks

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

4.6 Investment in debt securities

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

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

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

4.7 Investments in equity securities

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

4 Significant Accounting Policies (continued)

4.7 Investments in equity securities (continued)

if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

4.8 Derivative financial instruments

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

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

4.9 Loans and advances to customers

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

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

4.10 Non-Current assets Classified as Held for Sale

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

4.11 Offsetting

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

4.12 Financial liabilities

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

4 Significant Accounting Policies (continued)

4.12 Financial liabilities (continued)

other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

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

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

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

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

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

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

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

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

4.13 Repurchase and reverse repurchase agreements

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

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

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

4 Significant Accounting Policies (continued)

4.14 Premises and equipment

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

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

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

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

The Bank applies revaluation model for premises since 2013. Equipment owned by the Bank is stated at cost less depreciation and provision for impairment, where required. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.
Leasehold improvements are alterations made to rented properties by the Bank to customise it to its particular business needs and preferences. The improvements that are specialised to the Bank's intended use of the property are treated as own assets for accounting purposes.

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

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

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

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

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

4 Significant Accounting Policies (continued)

4.15 Investment property

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

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

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

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

4.16 Intangible assets

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

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

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

- Software licenses – from 3 to 10 years;

4.17 Leases

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;

4 Significant Accounting Policies (continued)

4.17 Leases (continued)

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

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

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

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

The Bank applied the Amendment to IFRS 16 to COVID-19 related rent concessions granted by lessors for the period. These concessions were recorded as a reduction in the lease liability and variable rent in the period in which they were granted. The Bank did not receive any material rent concessions.

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

4.18 Share capital and preferred shares

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

4.19 Treasury shares

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

4.20 Share premium

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

4 Significant Accounting Policies (continued)

4.21 Share-based payments

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

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

4.22 Dividends

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

4.23 Contingent assets and liabilities

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

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

4.24 Credit related commitments

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

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

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

4 Significant Accounting Policies (continued)

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

If performance guarantees do not meet the definition of a financial guarantee in IFRS 9, when there is no debt instrument outstanding between the contractor and the applicant and any payment under the guarantee does not solely depend on a debtor failing to make a payment. For such performance guarantees, the Bank is currently assessing its impact under IFRS 17.

4.25 Provisions

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

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

4.26 Taxation

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

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

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

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

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

4 Significant Accounting Policies (continued)

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

4.27 Employee benefits and social contributions

(i) Short-term benefits

Wages, salaries, and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when absences occur.

(ii) Defined contribution plans

As required by law, companies in Mongolia make contributions to the government pension scheme, Social and Health Fund. Such contributions are recognised as an expense in profit or loss as incurred. The Bank also contributes to a defined contribution pension plan. The contribution paid is recorded as an expense under "Pension fund expense" in proportion to the services rendered by the employees to the Bank.

4.28 Income and expense recognition

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

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

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

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

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

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

4 Significant Accounting Policies (continued)

4.28 Income and expense recognition (continued)

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

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

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

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

4.29 Repossessed collateral

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

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

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

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

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

4.30 Inventories

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

4 Significant Accounting Policies (continued)

4.31 Precious metals

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

5 Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2022, but did not have any significant impact on the Bank financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Bank has not early adopted.

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).

- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

- Transition option for insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).

  The Bank is currently assessing the impact of IFRS 17 and related amendments on its financial statements.

- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).

- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).

- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

- Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

7 Cash and Cash Equivalents

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

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Cash on hand	101,014,386	115,856,223
Current account with the Bank of Mongolia (other than mandatory reserve)	1,041,389,704	579,098,197
Cash and cash balances with the Bank of Mongolia	**1,142,404,090**	**694,954,420**

Cash and balances with the Bank of Mongolia (other than mandatory reserve) are not collateralised. Credit quality of current account with the Bank of Mongolia based on credit risk grade is “satisfactory” and had a B3 rating from Moody’s as at 31 December 2022 and 31 December 2021. Currency, interest rate and maturity analysis of Cash and balances with the Bank of Mongolia (other than mandatory reserve) are disclosed in Note 38.

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

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Cash and balances with the Bank of Mongolia (Note 7)	1,142,404,090	694,954,420
Treasury bills of the Bank of Mongolia with original maturities of less than three months (Note 10)	647,154,123	1,563,001,736
Due from banks (Note 9)	489,364,658	176,769,732
Less: credit loss allowance	(3,508,383)	-
Total cash and cash equivalents	**2,275,414,488**	**2,434,725,888**

For the purpose of ECL measurement, cash and cash balances with the Bank of Mongolia are included in Stage 1 as of 31 December 2022 and 31 December 2021. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents with the Bank of Mongolia. However, credit loss allowance is mainly related to due from Russian banks in which is classified in Stage 3. Please see Note 38 for inputs, assumptions and estimation techniques used for ECL calculation.

8 Mandatory reserves with the Bank of Mongolia

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Mandatory cash balances with the Bank of Mongolia	357,581,959	277,343,522
Mandatory cash balances with the Bank of Mongolia	**357,581,959**	**277,343,522**

Current accounts with the Bank of Mongolia are maintained in accordance with the regulations of the Bank of Mongolia. The mandatory cash balances maintained with the Bank of Mongolia are determined at not less than 8% in MNT and 18% in foreign currency (2021: not less than 6% in MNT and 18% in foreign currency) of customer deposits for a period of 2 weeks. According to the Bank of Mongolia resolution dated 29 March 2018, the Bank maintains 50% of the mandatory reserve balance as at the reporting date. Credit quality of current account with the Bank of Mongolia based on credit risk is “satisfactory” as at 31 December 2022 and 31 December 2021. For the purpose of ECL measurement, mandatory cash balances are included in Stage 1 as of 31 December 2022 and 31 December 2021.

8 Mandatory reserves with the Bank of Mongolia (continued)

The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for mandatory cash balances with the Bank of Mongolia. Please see Note 38 for inputs, assumptions and estimation techniques used for ECL calculation.

9 Due from Other Banks

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Correspondent accounts with other banks		
Foreign	387,577,033	122,837,341
Domestic	18,085,531	25,735,787
Short-term placements with other banks		
Foreign	40,384,037	18,208,629
Domestic	39,809,673	9,987,975
Placements with other banks with original maturities of more than three months	1,081,107,105	879,677,778
Total due from other banks	**1,566,963,380**	**1,056,447,510**

Placements with other banks with original maturities of more than three months as at 31 December 2022 include current accounts with maturities ranging from 1 year to 5 years.

The following table contains an analysis of due from other banks balances by credit quality at 31 December 2022 and 31 December 2021 based on credit risk grades and discloses due from other banks balances by three stages for the purpose of ECL measurement. Refer to Note 38 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other banks balances.

In thousands of Mongolian Tugriks	31 December 2022 Stage 1 (12-months ECL)	31 December 2021 Stage 1 (12-months ECL)
- Excellent	1,339,750,190	989,550,544
- Good	37,997,524	16,788,646
- Satisfactory	55,955,196	36,098,905
- Special monitoring	137,076,068	14,240,607
Gross carrying amount	**1,570,778,978**	**1,056,678,702**
Less: Credit loss allowance	(3,815,598)	(231,192)
Carrying amount	**1,566,963,380**	**1,056,447,510**

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

10 Investments in Debt Securities

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Debt securities at FVTOCI	1,003,207,697	1,808,800,791
Debt securities mandatorily measured at FVTPL	222,344,690	165,954,333
Debt securities at AC	4,698,623	4,684,750
Total investments in debt securities	**1,230,251,009**	**1,979,439,874**

10 Investments in Debt Securities (continued)

The significant decrease in debt securities at FVTOCI relates to the disposal of Bank of Mongolia Treasury Bills.

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

In thousands of Mongolian Tugriks	Debt securities at FVTOCI	Debt securities mandatorily measured at FVTPL	Debt securities at AC	Total
Treasury bills of the Bank of Mongolia (a)	742,100,282	-	-	**742,100,282**
MIK bonds – Senior RMBS (b)	-	34,374,181	-	**34,374,181**
MIK bonds – Junior RMBS (b)	-	137,676,182	-	**137,676,182**
Government bonds (c)	205,799,112	-	4,759,631	**210,558,743**
SFC bonds – Senior (d)	-	35,105,919	-	**35,105,919**
SFC bonds – Junior (d)	-	11,803,902	-	**11,803,902**
Corporate bonds (e)	55,308,303	3,384,506	-	**58,692,809**
Total investments in debt securities at 31 December 2022 (fair value or gross carrying value)	**1,003,207,697**	**222,344,690**	**4,759,631**	**1,230,312,018**
Less: Credit loss allowance	**-**	**-**	**(61,009)**	**(61,009)**
Total investments in debt securities at 31 December 2022 (carrying value)	**1,003,207,697**	**222,344,690**	**4,698,623**	**1,230,251,009**

The table below discloses investments in debt securities at 31 December 2021 by measurement categories and classes:

In thousands of Mongolian Tugriks	Debt securities at FVTOCI	Debt securities mandatorily measured at FVTPL	Debt securities at AC	Total
Treasury bills of the Bank of Mongolia(a)	1,563,001,736	-	-	**1,563,001,736**
MIK bonds – Senior RMBS (b)	-	41,800,489	-	**41,800,489**
MIK bonds – Junior RMBS (b)	-	121,956,669	-	**121,956,669**
Government bonds (c)	186,149,725	-	4,749,941	**190,899,666**
Corporate bonds (d)	59,649,330	2,197,175	-	**61,846,505**
Total investments in debt securities at 31 December 2021 (fair value or gross carrying value)	**1,808,800,791**	**165,954,333**	**4,749,941**	**1,979,505,065**
Less: Credit loss allowance	**-**	**-**	**(65,191)**	**(65,191)**
Total investments in debt securities at 31 December 2021 (carrying value)	**1,808,800,791**	**165,954,333**	**4,684,750**	**1,979,439,874**

(a) Treasury bills of the Bank of Mongolia

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

Treasury bills of the Bank of Mongolia with original maturities of less than three months are MNT 647,154,123 thousands as at 31 December 2022 (31 December 2021: MNT 1,563,001,736 thousands) and included in cash and cash equivalents for the purposes of the cash flow statement (Note 7).

Treasury bills of the Bank of Mongolia with nominal amount of MNT 205,728,000 thousands (31 December 2021: MNT 223,554,000 thousands) and MNT 42,800,000 thousands with maturity of 28 days were

10 Investments in Debt Securities (continued)

collateralised by Repo arrangement (Note 23) and by Project on gold production-2 (Note 22) with Bank of Mongolia, respectively.

(b) MIK bonds

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

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

(c) Government bonds

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

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

Government bonds with nominal amount of MNT 180,152,580 thousands (31 December 2021: nil) were collateralised to obtain borrowings from foreign bank. Please see Note 22.

(d) SFC bonds

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

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

(e) Corporate bonds

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

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

Corporate bonds classified at FVTOCI with nominal amount of MNT 38,372,844 thousands (31 December 2021: nil) were collateralised by Repo arrangement. Please see Note 23.

10 Investments in Debt Securities (continued)

Investments in debt securities at FVTOCI

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

In thousands of Mongolian Tugriks	**31 December 2022 Stage 1 (12-months ECL)**	**31 December 2021 Stage 1 (12-months ECL)**
Treasury bills of the Bank of Mongolia		
- Excellent	743,009,418	1,563,953,019
Total AC gross carrying amount	**743,009,418**	**1,563,953,019**
Less: Credit loss allowance	(909,136)	(951,283)
Carrying value (fair value)	**742,100,282**	**1,563,001,736**

The following table discloses government bonds measured at FVTOCI:

In thousands of Mongolian Tugriks	**31 December 2022 Stage 1 (12-months ECL)**	**31 December 2021 Stage 1 (12-months ECL)**
Government bonds		
- Excellent	235,807,611	185,898,487
Total AC gross carrying amount	**235,807,611**	**185,898,487**
Less: Credit loss allowance	(3,208,263)	(2,675,792)
Less: Fair value adjustment from AC to FV	(26,800,236)	2,927,030
Carrying value (fair value)	**205,799,112**	**186,149,725**

The following table discloses corporate bonds measured at FVTOCI:

In thousands of Mongolian Tugriks	**31 December 2022 Stage 1 (12-months ECL)**	**31 December 2021 Stage 1 (12-months ECL)**
Corporate bonds		
- Satisfactory	77,283,289	60,510,603
Total AC gross carrying amount	**77,283,289**	**60,510,603**
Less: Credit loss allowance	(1,033,273)	(861,273)
Less: Fair value adjustment from AC to FV	(20,941,714)	-
Carrying value (fair value)	**55,308,303**	**59,649,330**

10 Investments in Debt Securities (continued)

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

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

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

10 Investments in Debt Securities (continued)

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

In thousands of Mongolian Tugriks	**Credit loss allowance Stage 1 (12-months ECL)**	**Carrying value Stage 1 (12-months ECL)**
Treasury bills of the Bank of Mongolia at FVTOCI		
At 1 January 2021	**632,582**	**1,097,569,862**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	951,283	1,563,953,019
Derecognised during the period	(632,582)	(1,097,569,862)
At 31 December 2021	**951,283**	**1,563,953,019**
Government bonds at FVTOCI		
At 1 January 2021	**2,073,263**	**147,966,809**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	602,529	40,904,496
Total gross carrying value	**2,675,792**	**188,871,305**
Movements without impact on credit loss allowance charge for the period:		
FX and other movements	-	(45,788)
At 31 December 2021	**2,675,792**	**188,825,517**
Corporate bonds at FVTOCI		
At 1 January 2021	**-**	**-**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	861,273	60,533,309
Total gross carrying value	**861,273**	**60,533,309**
Movements without impact on credit loss allowance charge for the period:		
FX and other movements	-	(22,706)
At 31 December 2021	**861,273**	**60,510,603**

10 Investments in Debt Securities (continued)

Investments in debt securities at AC

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

In thousands of Mongolian Tugriks	31 December 2022 Stage 1 (12-months ECL)	31 December 2021 Stage 1 (12-months ECL)
Government bonds		
- Satisfactory	4,759,632	4,749,941
Total investments in debt securities measured at AC (gross carrying amount)	**4,759,632**	**4,749,941**
Less: Credit loss allowance	**(61,009)**	**(65,191)**
Total investments in debt securities measured at AC (carrying amount)	**4,698,623**	**4,684,750**

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

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

In thousands of Mongolian Tugriks	Credit loss allowance Stage 1(12-months ECL)	Gross carrying amount Stage 1(12-months ECL)
Government bonds at AC		
At 1 January 2022	**65,191**	**4,749,941**
Movements with impact on credit loss allowance charge for the period:		
Derecognised during the period	(4,181)	-
Changes in accrued interest	-	9,691
Total movements with impact on credit loss allowance charge for the period	**(4,181)**	**9,691**
At 31 December 2022	**61,009**	**4,759,632**

10 Investments in Debt Securities (continued)

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

In thousands of Mongolian Tugriks	Credit loss allowance Stage 1(12-months ECL)	Gross carrying amount Stage 1(12-months ECL)
Government bonds at AC		
At 1 January 2021	**62,515**	**4,741,411**
Movements with impact on credit loss allowance charge for the period:		
New originated or purchased	2,676	-
Changes in accrued interest	-	8,530
Total movements with impact on credit loss allowance charge for the period	**2,676**	**8,530**
As at 31 December 2021	**65,191**	**4,749,941**

11 Investments in Equity Securities

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Equity securities at FVTPL	22,103,523	17,927,851
Equity securities at FVTOCI	409,968	544,864
Total investments in equity securities	**22,513,491**	**18,472,715**

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

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

The table below discloses investments in equity securities at 31 December 2021 by measurement categories and classes:

In thousands of Mongolian Tugriks	Equity securities at FVTPL	Equity securities at FVTOCI	Total
Corporate shares	17,927,851	544,864	**18,472,715**
Total investments in equity securities at 31 December 2021	**17,927,851**	**544,864**	**18,472,715**

11 Investments in Equity Securities (continued)

(a) Investments in equity securities at FVTPL

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

Corporate shares mainly consist from quoted shares of Mongolian Mortgage Corporation and of APU JSC, both listed on Mongolian Stock Exchange, with fair value of MNT 20,740,142 thousands and MNT 1,266,411 thousands as of 31 December 2022 (2021: MNT 15,345,248 thousands and MNT 2,450,864 thousands) respectively.

(b) Investments in equity securities at FVTOCI

As of 31 December 2022, the Bank has invested in MNT 409,968 thousands of equity securities at FVTOCI. The FVTOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

The decrease in equity securities at FVTOCI relates to the fact that the Bank has sold its investment in a listed company due to significant fall in the value of the shares.

12 Loans and Advances to Customers

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Gross carrying amount of loans and advances to customers at AC	3,459,083,356	3,110,945,995
Less: Credit loss allowance	(199,150,359)	(160,974,133)
Total carrying amount of loans and advances to customers at AC	**3,259,932,997**	**2,949,971,862**
Loans and advances to customers at FVTPL / Mortgage/	394,529,262	304,232,064
Loans and advances to customers at FVTPL / SME/	17,260,939	83,823,576
Loans and advances to customers at FVTPL / Corporate/	25,910,147	1,147,335
Total loans and advances to customers	**3,697,633,345**	**3,339,174,837**

The bank holds a MIK mortgage portfolio, and a SME loan portfolio financed by long term REPO financing by the Bank of Mongolia with business model “hold to sell” under IFRS 9. As a result, these loans and advances were classified as at FVTPL from the date of initial recognition. The corporate loan classified at FVTPL is a modified instrument that had been previously classified as a derivative financial instrument.

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

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2022 and 31 December 2021 are disclosed in the table below:

	31 December 2022			31 December 2021		
In thousands of Mongolian Tugriks	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Loans to corporate customers						
Loans to Corporate	1,163,669,938	(103,906,237)	**1,059,763,701**	1,220,124,468	(26,680,865)	**1,193,443,603**
Loans to SME	949,395,836	(36,581,312)	**912,814,523**	825,665,816	(39,873,780)	**785,792,036**
Loans to individuals						
Consumer loans	887,392,253	(53,826,353)	**833,565,900**	722,421,933	(87,273,003)	**635,148,930**
Mortgage loans	458,625,329	(4,836,457)	**453,788,872**	342,733,778	(7,146,485)	**335,587,293**
Total loans and advances to customers at AC	**3,459,083,356**	**(199,150,359)**	**3,259,932,997**	**3,110,945,995**	**(160,974,133)**	**2,949,971,862**

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

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

As of 31 December 2022, loss on initial recognition of loans at rates below market in the amount of MNT 235,786 thousand (31 December 2021: MNT 2,636,090 thousand) has been recorded in profit or loss for the year.

12 Loans and Advances to Customers (continued)

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

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate								
At 1 January 2022	**4,952,809**	**910,058**	**20,817,997**	**26,680,865**	**887,463,025**	**194,269,029**	**138,392,414**	**1,220,124,468**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(9,723,568)	9,647,699	-	**(75,869)**	(171,813,770)	171,813,770	-	**-**
- to credit-impaired (from stage 1 and Stage 2 to Stage 3)	-	(4,614,545)	76,913,785	**72,299,240**	-	(103,046,660)	103,046,660	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	41,800	-		**41,800**	12,730,853	(12,730,853)	-	**-**
- from Stage 3 to Stage 2	-	-	-	**-**	-	2,739,324	(2,739,324)	**-**
New originated or purchased	10,543,639	-	-	**10,543,639**	631,981,497			**631,981,497**
Derecognised during the period	(3,350,487)	-	(3,591,034)	**(6,941,521)**	(480,596,160)	(122,948,008)	(80,206,493)	**(683,750,661)**
Changes to ECL measurement model assumptions	-	-	(105,037)	**(105,037)**	-	-	-	**-**
Unwinding of discount	274,269	-	1,283,204	**1,557,473**	-	-	-	**-**
Changes in accrued interest	(25,483)	-	2,597,181	**2,571,698**	(4,667,786)	(117,736)	4,527,675	**(257,846)**
Other movements	83,563	99,459	2,696,872	**2,879,894**	2,735,740	182,273	751,198	**3,669,211**
Total movements with impact on credit loss allowance charge for the period	**(2,156,268)**	**5,132,614**	**79,794,971**	**82,771,316**	**(9,629,625)**	**(64,107,889)**	**25,379,716**	**(48,357,799)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(5,117,648)	**(5,117,648)**	-	-	(5,117,648)	**(5,117,648)**
FX and other movements	(27,542)	(99,459)	(301,296)	**(428,296)**	(2,735,740)	(182,273)	(61,070)	**(2,979,083)**
At 31 December 2022	**2,769,000**	**5,943,213**	**95,194,025**	**103,906,237**	**875,097,660**	**129,978,867**	**158,593,412**	**1,163,669,938**

12 Loans and Advances to Customers (continued)

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

	Credit loss allowances				**Gross carrying amount**			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate								
At 1 January 2021	5,495,895	768,810	14,803,140	**21,067,845**	660,249,504	198,154,010	406,313,750	**1,264,717,264**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(7,800,225)	7,652,535	-	**(147,690)**	(126,182,477)	126,182,477	-	**-**
- to credit-impaired (from stage 1 and Stage 2 to Stage 3)	-	(6,742,476)	6,603,060	**(139,416)**	-	(35,166,024)	35,166,024	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	221,412	(518)	-	**220,894**	44,197,542	(44,197,542)	-	**-**
- from Stage 3 to Stage 2	-	-	-	**-**	-	29,737,826	(29,737,826)	**-**
New originated or purchased	11,214,561	-	-	**11,214,561**	754,858,575	-	-	**754,858,575**
Derecognised during the period	(4,218,461)	(810,028)	(795,595)	**(5,824,084)**	(434,809,749)	(80,441,719)	(255,613,518)	**(770,864,986)**
Changes to ECL measurement model assumptions	(150,867)	147,691	17,622,200	**17,619,024**	-	-	-	**-**
Unwinding of discount	136,090	41,735	207,392	**385,217**	-	-	-	**-**
Changes in accrued interest	(17,284)	(52,390)	(116,222)	**(185,896)**	(2,170,795)	(705,527)	(679,465)	**(3,555,787)**
Other movements	(68,245)	(95,301)	(1,049,639)	**(1,213,185)**	(11,038,897)	(124,198)	21,964	**(11,141,131)**
Total movements with impact on credit loss allowance charge for the period	**(683,019)**	**141,248**	**22,471,196**	**21,929,425**	**224,854,199**	**(4,714,707)**	**(250,842,821)**	**(30,703,329)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(17,482,784)	**(17,482,784)**	-	-	(17,482,784)	**(17,482,784)**
FX and other movements	139,933	-	1,026,446	**1,166,379**	2,359,322	829,726	404,269	**3,593,317**
At 31 December 2021	**4,952,809**	**910,058**	**20,817,998**	**26,680,865**	**887,463,025**	**194,269,029**	**138,392,414**	**1,220,124,468**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	**Credit loss allowances**				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
SME								
At 1 January 2022	**3,190,681**	**47,759**	**36,635,340**	**39,873,780**	**661,604,004**	**13,238,715**	**150,823,097**	**825,665,816**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(2,875,406)	2,760,253	-	**(115,152)**	(62,754,031)	62,754,031	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	(2,684,964)	3,196,345	**511,380**	-	(23,231,680)	23,231,680	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4,433	(295,701)	-	**(291,268)**	5,375,340	(5,375,340)	-	**-**
- from Stage 3 to Stage 2	-	281,450	(281,474)	**(24)**	-	7,630,594	(7,630,594)	**-**
New originated or purchased	3,479,090	-	-	**3,479,090**	505,966,217	-	-	**505,966,217**
Derecognised during the period	(3,006,361)	(16,846)	(9,396,958)	**(12,420,166)**	(318,561,374)	(13,959,295)	(50,726,731)	**(383,247,400)**
Changes to ECL measurement model assumptions	-	-	51,140	**51,140**	-	-	5,100,090	**5,100,090**
Unwinding of discount	303,424	-	3,370,313	**3,673,737**	-	-		**-**
Changes in accrued interest	(15,405)	3	570,305	**554,903**	(570,442)	(120)	(1,213,284)	**(1,783,846)**
Other movements	(11,378)	(3)	1,380,626	**1,369,245**	79,711	0	(2,214,748)	**(2,135,037)**
Total movements with imact on credit loss allowance charge for the period	**(2,121,604)**	**44,192**	**(1,109,702)**	**(3,187,115)**	**129,535,421**	**27,818,191**	**(33,453,587)**	**123,900,025**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(72,881)	**(72,881)**	-	-	(72,881)	**(72,881)**
FX and other movements	(3,755)	(0)	(28,717)	**(32,472)**	(79,711)	(0)	(17,412)	**(97,123)**
At 31 December 2022	**1,065,322**	**91,951**	**35,424,039**	**36,581,312**	**791,059,713**	**41,056,905**	**117,279,217**	**949,395,836**

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
SME								
At 1 January 2021	**2,152,696**	**1,142,603**	**32,827,277**	**36,122,576**	**391,957,308**	**79,351,278**	**218,712,921**	**690,021,507**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(3,285,934)	3,287,076	-	**1,142**	(49,635,585)	49,635,585	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	(3,583,626)	5,477,972	**1,894,346**	-	(54,255,301)	54,255,301	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	998,633	(1,389,277)	-	**(390,644)**	44,721,620	(44,721,620)	-	**-**
- from Stage 3 to Stage 2	-	920,838	(941,661)	**(20,823)**	-	28,767,092	(28,767,092)	**-**
New originated or purchased	5,414,768	-	-	**5,414,768**	547,116,848	-	-	**547,116,848**
Derecognised during the period	(1,749,590)	(1,169,200)	(2,457,227)	**(5,376,017)**	(276,988,379)	(44,654,934)	(68,259,192)	**(389,902,505)**
Changes to ECL measurement model assumptions	(131,553)	586	15,093,617	**14,962,650**	-	-	-	**-**
Unwinding of discount	96,836	592	2,441,449	**2,538,877**	-	-	-	**-**
Changes in accrued interest	(10,434)	(111)	2,247,273	**2,236,728**	(654,487)	(21,279)	2,261,059	**1,585,293**
Other movements	(269,428)	838,278	300,080	**868,930**	5,129,919	(875,798)	(9,044,669)	**(4,790,548)**
Total movements with impact on credit loss allowance charge for the period	**1,063,298**	**(1,094,844)**	**22,161,503**	**22,129,957**	**269,689,936**	**(66,126,255)**	**(49,554,593)**	**154,009,088**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	(47,792)	-	(18,509,675)	**(18,557,467)**	(47,792)	-	(18,509,675)	**(18,557,467)**
FX and other movements	22,479	-	156,235	**178,714**	4,552	13,692	174,444	**192,688**
At 31 December 2021	**3,190,681**	**47,759**	**36,635,340**	**39,873,780**	**661,604,004**	**13,238,715**	**150,823,097**	**825,665,816**

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Consumer								
At 1 January 2022	**7,708,982**	**1,708,225**	**77,855,796**	**87,273,002**	**631,245,234**	**9,955,887**	**81,220,813**	**722,421,933**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(1,737,774)	2,196,353	-	**458,579**	(25,975,886)	25,975,886	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	(1,985,231)	7,417,074	**5,431,843**	-	(12,810,415)	12,810,415	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	10,929	(747,539)	-	**(736,610)**	1,412,203	(1,412,203)	-	**-**
- from Stage 3 to Stage 2	-	410,713	(474,808)	**(64,095)**	-	600,231	(600,231)	**-**
New originated or purchased	2,878,180	-	-	**2,878,180**	492,222,709	-	-	**492,222,709**
Derecognised during the period	(6,049,296)	(427,004)	(23,757,602)	**(30,233,903)**	(279,604,982)	(8,836,932)	(25,827,684)	**(314,269,598)**
Changes to ECL measurement model assumptions	16,837	-	(4,177,419)	**(4,160,582)**	-	-	-	
Unwinding of discount	806,687	28,467	7,050,241	**7,885,396**	-	-	-	**-**
Changes in accrued interest	(19,498)	(2,579)	(2,986,913)	**(3,008,990)**	(1,201,860)	(7,675)	(3,282,503)	**(4,492,037)**
Other movements	23,031	9,027	3,032,275	**3,064,333**	77,896	1,329	6,434,769	**6,513,995**
Total movements with impact on credit loss allowance charge for the period	**(4,070,904)**	**(517,793)**	**(13,897,152)**	**(18,485,849)**	**186,930,080**	**3,510,222**	**(10,465,234)**	**179,975,068**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	(17,422)	-	(14,893,680)	**(14,911,102)**	(17,422)	-	(14,893,680)	**(14,911,102)**
FX and other movements	(3,532)	(804)	(45,362)	**(49,699)**	(83,862)	(1,329)	(8,455)	**(93,646)**
At 31 December 2022	**3,617,123**	**1,189,627**	**49,019,602**	**53,826,353**	**818,074,030**	**13,464,780**	**55,853,444**	**887,392,253**

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Consumer								
At 1 January 2021	**10,272,229**	**3,221,507**	**81,491,403**	**94,985,139**	**605,831,938**	**18,265,107**	**110,642,027**	**734,739,072**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(1,356,588)	2,314,222		**957,634**	(22,028,707)	22,028,707		**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)		(2,279,079)	11,418,080	**9,139,001**		(19,709,789)	19,709,789	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	178,801	(3,359,919)		**(3,181,118)**	6,122,716	(6,122,716)	-	**-**
- from Stage 3 to Stage 2		2,595,137	(2,796,578)	**(201,441)**		4,748,440	(4,748,440)	**-**
New originated or purchased	3,744,680	-	-	**3,744,680**	331,479,146	-	-	**331,479,146**
Derecognised during the period	(5,639,571)	(3,166,800)	(16,654,857)	**(25,461,228)**	(292,978,212)	(9,252,039)	(41,196,673)	**(343,426,924)**
Changes to ECL measurement model assumptions	26,206	1,560	(84,705)	**(56,939)**	-	-	-	**-**
Unwinding of discount	563,045	17,132	4,757,364	**5,337,541**	-	-	-	**-**
Changes in accrued interest	(71,680)	(2,714)	3,530,922	**3,456,528**	1,715,086	(12,202)	2,918,116	**4,621,000**
Other movements	17,039	2,368,907	(3,617,881)	**(1,231,935)**	1,077,602	12,107	(5,919,519)	**(4,829,810)**
Total movements with impact on credit loss allowance charge for the period	**(2,538,068)**	**(1,511,554)**	**(3,447,655)**	**(7,497,277)**	**25,387,631**	**(8,307,492)**	**(29,236,727)**	**(12,156,588)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	(27,290)	(1,728)	(189,927)	**(218,945)**	(27,290)	(1,728)	(189,927)	**(218,945)**
FX and other movements	2,111	-	1,975	**4,086**	52,954	-	5,440	**58,394**
At 31 December 2021	**7,708,982**	**1,708,225**	**77,855,796**	**87,273,003**	**631,245,233**	**9,955,887**	**81,220,813**	**722,421,933**

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Mortgage								
At 1 January 2022	**1,393,864**	**123,078**	**5,629,543**	**7,146,485**	**301,572,105**	**3,937,257**	**37,224,416**	**342,733,778**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(149,762)	212,737	-	**62,975**	(12,642,982)	12,642,982	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	(182,236)	990,167	**807,931**	-	(7,076,722)	7,076,722	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	505	(142,352)	-	**(141,847)**	2,420,042	(2,420,042)	-	**-**
- from Stage 3 to Stage 2	-	126,285	(138,230)	**(11,944)**	-	1,817,236	(1,817,236)	**-**
New originated or purchased	185,074	-	-	**185,074**	185,066,363	-	-	**185,066,363**
Derecognised during the period	(1,265,216)	(4,494)	(3,374,267)	**(4,643,977)**	(53,411,547)	(888,706)	(9,399,287)	**(63,699,540)**
Changes to ECL measurement model assumptions	(6,017)	-	(16,662)	**(22,679)**	(4,419,223)	-	(104,405)	**(4,523,628)**
Unwinding of discount	154,142	98	609,707	**763,947**	-	-	-	**-**
Changes in accrued interest	(8,091)	(3)	(175,903)	**(183,997)**	(413,167)	(5)	(716,287)	**(1,129,459)**
Other movements	12,541	12,204	849,745	**874,490**	232,693	-	(54,877)	**177,816**
Total movements with impact on credit loss allowance charge for the period	**(1,076,826)**	**22,240**	**(1,255,443)**	**(2,310,029)**	**116,832,179**	**4,074,743**	**(5,015,369)**	**115,891,552**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	**-**	-	-	-	**-**
At 31 December 2022	**317,039**	**145,318**	**4,374,100**	**4,836,457**	**418,404,283**	**8,012,000**	**32,209,047**	**458,625,330**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Credit loss allowances				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (life-time ECL for SICR)**	**Stage 3 (life-time ECL for credit im-paired)**	**Total**
Mortgage								
At 1 January 2021	**1,490,564**	**468,933**	**5,989,467**	**7,948,964**	**260,688,136**	**9,369,011**	**42,181,168**	**312,238,315**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(68,857)	159,948	-	**91,091**	(10,638,700)	10,638,700	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	(168,478)	1,588,037	**1,419,559**	-	(10,524,656)	10,524,656	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	19,030	(494,397)	-	**(475,367)**	5,820,936	(5,820,936)	-	**-**
- from Stage 3 to Stage 2	-	367,417	(789,739)	**(422,322)**	-	3,606,408	(3,606,408)	**-**
New originated or purchased	810,752	-	-	**810,752**	147,061,004	-	-	**147,061,004**
Derecognised during the period	(932,356)	(743,660)	(1,454,752)	**(3,130,768)**	(99,805,381)	(3,256,654)	(11,513,457)	**(114,575,492)**
Changes to ECL measurement model assumptions	84,329	-	73,619	**157,948**	-	-	-	**-**
Unwinding of discount	76,405	467	296,528	**373,400**	-	-	-	**-**
Changes in accrued interest	(8,685)	(39)	157,248	**148,524**	(629,887)	(5,775)	267,500	**(368,162)**
Other movements	(77,318)	532,887	(220,037)	**235,532**	(924,003)	(68,841)	(618,215)	**(1,611,059)**
Total movements with impact on credit loss allowance charge for the period	**(96,700)**	**(345,855)**	**(349,096)**	**(791,651)**	**40,883,969**	**(5,431,754)**	**(4,945,924)**	**30,506,291**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(10,828)	**(10,828)**	-	-	(10,828)	**(10,828)**
At 31 December 2021	**1,393,864**	**123,078**	**5,629,543**	**7,146,485**	**301,572,105**	**3,937,257**	**37,224,416**	**342,733,778**

12 Loans and Advances to Customers (continued)

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

In thousands of Mongolian Tugriks	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	Total
Expected credit loss allowance at 1 January 2022	**26,680,865**	**39,873,780**	**87,273,003**	**7,146,485**	**160,974,133**
Credit loss allowance charge/(recovery) during the year	82,771,316	(3,187,115)	(18,485,849)	(2,310,029)	**58,788,324**
Amounts written off during the year as uncollectible	(5,117,648)	(72,881)	(14,911,102)	-	**(20,101,631)**
Exchange difference	(428,296)	(32,472)	(49,699)	-	**(510,467)**
Expected credit loss allowance at 31 December 2022	**103,906,237**	**36,581,312**	**53,826,354**	**4,836,456**	**199,150,359**

During 2022, the Bank has recovered MNT 12,818,836 thousand from previously written-off loans as circumstances and expectations have changed positively for certain borrowers.

Movements in the expected credit loss allowance for loans to legal entities and individuals during 2021 of are as follows:

In thousands of Mongolian Tugriks	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	Total
Expected credit loss allowance at 1 January 2021	**21,067,845**	**36,122,576**	**94,985,139**	**7,948,964**	**160,124,524**
Credit loss allowance charge/(recovery) during the year	21,929,425	22,129,957	(7,497,277)	(791,651)	**35,770,454**
Amounts written off during the year as uncollectible	(17,482,784)	(18,557,467)	(218,945)	(10,828)	**(36,270,024)**
Exchange difference	1,166,379	178,714	4,086	-	**1,349,179**
Expected credit loss allowance at 31 December 2021	**26,680,865**	**39,873,780**	**87,273,003**	**7,146,485**	**160,974,133**

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

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

12 Loans and Advances to Customers (continued)

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

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

In thousands of Mongolian Tugriks	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Loans to Corporate				
- Excellent	875,097,660	-	-	**875,097,660**
- Good	-	129,978,867	-	**129,978,867**
- Satisfactory	-	-	6,339,578	**6,339,578**
- Special Monitoring	-	-	18,273,609	**18,273,609**
- Default	-	-	133,980,225	**133,980,225**
Gross carrying amount	**875,097,660**	**129,978,867**	**158,593,412**	**1,163,669,938**
Less: Credit loss allowance	(2,769,000)	(5,943,213)	(95,194,025)	**(103,906,237)**
Carrying amount	**872,328,660**	**124,035,654**	**63,399,387**	**1,059,763,701**
Loans to SME				
- Excellent	791,059,714	-	-	**791,059,713**
- Good	-	41,056,905	-	**41,056,905**
- Satisfactory	-	-	30,986,840	**30,986,840**
- Special monitoring	-	-	19,123,366	**19,123,366**
- Default	-	-	67,169,010	**67,169,010**
Gross carrying amount	**791,059,714**	**41,056,905**	**117,279,217**	**949,395,836**
Less: Credit loss allowance	(1,065,322)	(91,951)	(35,424,039)	**(36,581,312)**
Carrying amount	**789,994,392**	**40,964,954**	**81,855,178**	**912,814,524**
Consumer loans				
- Excellent	818,074,030	-	-	**818,074,030**
- Good	-	13,464,780	-	**13,464,780**
- Satisfactory	-	-	6,933,549	**6,933,549**
- Special monitoring	-	-	7,404,755	**7,404,755**
- Default	-	-	41,515,139	**41,515,139**
Gross carrying amount	**818,074,030**	**13,464,780**	**55,853,444**	**887,392,253**
Less: Credit loss allowance	(3,617,123)	(1,189,627)	(49,019,602)	**(53,826,353)**
Carrying amount	**814,456,907**	**12,275,152**	**6,833,841**	**833,565,900**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Mortgage loans				
- Excellent	418,404,283	-	-	**418,404,283**
- Good	-	8,012,000	-	**8,012,000**
- Satisfactory	-	-	14,666,025	**14,666,025**
- Special monitoring	-	-	6,305,159	**6,305,159**
- Default	-	-	11,237,863	**11,237,863**
Gross carrying amount	**418,404,283**	**8,012,000**	**32,209,047**	**458,625,330**
Less: Credit loss allowance	(317,039)	(145,318)	(4,374,100)	(4,836,457)
Carrying amount	418,087,244	7,866,681	27,834,947	**453,788,873**

The credit quality of loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2021:

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to Corporate				
- Excellent	887,463,025	-	-	**887,463,025**
- Good	-	194,269,029	-	**194,269,029**
- Satisfactory	-	-	40,998,591	**40,998,591**
- Special monitoring	-	-	54,523,580	**54,523,580**
- Default	-	-	42,870,243	**42,870,243**
Gross carrying amount	**887,463,025**	**194,269,029**	**138,392,414**	**1,220,124,468**
Less: Credit loss allowance	(4,952,809)	(910,058)	(20,817,998)	**(26,680,865)**
Carrying amount	**882,510,216**	**193,358,971**	**117,574,416**	**1,193,443,603**
Loans to SME				
- Excellent	661,604,004	-	-	**661,604,004**
- Good	-	13,238,715	-	**13,238,715**
- Satisfactory	-	-	50,741,630	**50,741,630**
- Special monitoring	-	-	22,154,593	**22,154,593**
- Default	-	-	77,926,874	**77,926,874**
Gross carrying amount	**661,604,004**	**13,238,715**	**150,823,097**	**825,665,816**
Less: Credit loss allowance	(3,190,681)	(47,759)	(36,635,340)	**(39,873,780)**
Carrying amount	**658,413,323**	**13,190,956**	**114,187,757**	**785,792,036**

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Consumer loans				
- Excellent	631,245,233	-	-	**631,245,233**
- Good	-	9,955,887	-	**9,955,887**
- Satisfactory	-	-	22,447,365	**22,447,365**
- Special monitoring	-	-	11,090,333	**11,090,333**
- Default	-	-	47,683,115	**47,683,115**
Gross carrying amount	**631,245,233**	**9,955,887**	**81,220,813**	**722,421,933**
Less: Credit loss allowance	(7,708,982)	(1,708,225)	(77,855,796)	**(87,273,003)**
Carrying amount	**623,536,251**	**8,247,662**	**3,365,017**	**635,148,930**
Mortgage loans				
- Excellent	301,572,105	-	-	**301,572,105**
- Good	-	3,937,257	-	**3,937,257**
- Satisfactory	-	-	16,561,758	**16,561,758**
- Special monitoring	-	-	6,588,354	**6,588,354**
- Default	-	-	14,074,304	**14,074,304**
Gross carrying amount	**301,572,105**	**3,937,257**	**37,224,416**	**342,733,778**
Less: Credit loss allowance	(1,393,864)	(123,078)	(5,629,543)	**(7,146,485)**
Carrying amount	**300,178,241**	**3,814,179**	**31,594,873**	**335,587,293**

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

12 Loans and Advances to Customers (continued)

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

	31 December 2022		**31 December 2021**	
In thousands of Mongolian Tugriks	**Amount**	**%**	**Amount**	**%**
Trade - Whole & Retail	1,006,186,937	25.82%	774,870,662	22.14%
Mortgage & House maintenance	853,154,592	21.89%	646,858,857	18.48%
Individuals	848,222,438	21.77%	668,710,210	19.11%
Maintenance	333,185,231	8.55%	248,589,026	7.10%
Mining & Exploration	180,926,486	4.64%	404,192,337	11.55%
Manufacturing	157,543,374	4.04%	216,979,477	6.20%
Finance	141,467,760	3.63%	135,738,076	3.88%
Construction	125,427,382	3.22%	159,140,634	4.55%
Transport & Communication	59,924,675	1.54%	62,098,840	1.77%
Real estate	46,323,396	1.19%	32,773,630	0.94%
Home appliances	25,295,992	0.65%	17,093,077	0.49%
Agriculture	22,012,833	0.56%	19,795,614	0.57%
Electricity & Oil	20,902,331	0.54%	13,008,361	0.37%
Car	18,502,050	0.47%	27,062,774	0.77%
Hotel & Restaurant	17,466,763	0.45%	35,748,066	1.02%
Healthcare	14,080,113	0.36%	17,090,053	0.49%
Education	13,697,099	0.35%	15,688,844	0.45%
Others	7,928,507	0.20%	968,411	0.03%
Social services	1,939,963	0.05%	1,831,404	0.05%
Public service	1,599,804	0.04%	-	0.00%
Tourism	993,894	0.03%	1,733,770	0.05%
Entrepreneurship	2,084	0.00%	176,847	0.01%
Total loans and advances to customers carried at AC and at FVTPL before credit loss allowance	**3,896,783,704**	**100.00%**	**3,500,148,970**	**100%**

12 Loans and Advances to Customers (continued)

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral and credit enhancements held for loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2022:

In thousands of Mongolian Tugriks	**Loans to Corporate**	**Loans to SME**	**Consumer loans**	**Mortgage loans**	**Total**
Loans collateralised by:					
- residential real estate	56,535,624	288,703,930	22,839,503	361,637,993	**729,717,050**
- other real estate	513,800,334	460,958,175	7,235,405	26,332,445	**1,008,326,360**
- tradable securities	27,145,303	1,000	-	-	**27,146,303**
- cash deposits	25,086,951	15,615,231	82,592,682	364,153	**123,659,016**
- machinery and equipment	96,652,818	92,248,858	17,036,761	840,134	**206,778,572**
- credit enhancements	396,868,391	69,745,772	13,053,704	67,060,834	**546,728,701**
Total	**1,116,089,421**	**927,272,967**	**142,758,055**	**456,235,559**	**2,642,356,002**
Unsecured exposures	47,580,517	22,122,869	744,634,198	2,389,771	**816,727,354**
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,163,669,938**	**949,395,836**	**887,392,253**	**458,625,330**	**3,459,083,356**

Description of collateral held for loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2021:

In thousands of Mongolian Tugriks	**Loans to Corporate**	**Loans to SME**	**Consumer loans**	**Mortgage loans**	**Total**
Loans collateralised by:					
- residential real estate	80,280,827	265,275,064	16,207,872	243,945,345	**605,709,108**
- other real estate	468,541,385	327,122,525	6,460,246	22,510,689	**824,634,845**
- tradable securities	129,752,852	-	-	-	**129,752,852**
- cash deposits	10,796,273	75,751,586	120,818,490	2,419,928	**209,786,277**
- machinery and equipment	105,144,369	68,522,483	22,973,206	926,276	**197,566,334**
- credit enhancements	333,553,435	55,556,504	13,969,991	69,081,938	**472,161,868**
Total	**1,128,069,141**	**792,228,162**	**180,429,805**	**338,884,176**	**2,439,611,284**
Unsecured exposures	92,055,327	33,437,654	541,992,128	3,849,602	**671,334,711**
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**1,220,124,468**	**825,665,816**	**722,421,933**	**342,733,778**	**3,110,945,995**

12 Loans and Advances to Customers (continued)

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

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

In thousands of Mongolian Tugriks	**31 December 2022**	**31 December 2021**
Loans to corporate customers:		
Loans to Corporate	186,542,460	373,390,027
Loans to SME	410,630,416	309,047,164
Loans to individuals:		
Consumer loans	187,508,773	146,419,606
Mortgage loans	246,612,918	155,746,393
Total significantly over-collateralised loans and advances to customers carried at AC	**1,031,294,567**	**984,603,190**

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral on credit-impaired assets at 31 December 2022 is as follows:

	Over-collateralized assets		**Under-collateralized assets**	
In thousands of Mongolian Tugriks	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Credit impaired assets:				
Loans carried at AC:				
Corporate	80,004,838	165,096,832	78,588,574	21,005,188
SME	64,740,920	145,276,298	52,538,297	31,731,184
Consumer	2,722,128	5,852,395	53,131,316	2,769,202
Mortgage	17,636,564	34,160,043	14,572,483	10,833,002
Total	**165,104,449**	**350,385,567**	**198,830,670**	**66,338,576**

12 Loans and Advances to Customers (continued)

The effect of collateral on credit-impaired assets at 31 December 2021 is as follows:

In thousands of Mongolian Tugriks	Over-collateralized assets: Carrying value of the assets	Over-collateralized assets: Fair value of collateral	Under-collateralized assets: Carrying value of the assets	Under-collateralized assets: Fair value of collateral
Credit impaired assets:				
Loans carried at AC:				
Corporate	95,558,168	179,300,282	42,834,246	4,837,438
SME	70,985,994	159,514,751	79,837,103	47,896,516
Consumer	4,828,399	8,606,612	76,392,414	4,986,262
Mortgage	17,846,401	29,320,936	19,378,015	14,167,618
Total	**189,218,962**	**376,742,581**	**218,441,778**	**71,887,834**

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

Description of collateral held for loans to corporate and individual customers carried at FVTPL is as follows at 31 December 2022 and 31 December 2021:

In thousands of Mongolian Tugriks	Mortgage: 31 December 2022	Mortgage: 31 December 2021	SME: 31 December 2022	SME: 31 December 2021	Corporate: 31 December 2022	Corporate: 31 December 2021
Loans collateralised by:						
- residential real estate	393,228,095	302,657,034	1,307,089	13,261,329	-	-
- other real estate	1,301,167	1,464,031	14,486,014	65,604,828	5,841,778	-
- machinery and equipments	-	-	1,431,257	-	-	-
- inventories	-	-	9,625	-	20,068,368	-
- other assets	-	-	26,954	1,275,367	-	1,147,335
- guarantee	-	110,999	-	3,682,052	-	-
Total	**394,529,262**	**304,232,064**	**17,260,939**	**83,823,576**	**25,910,146**	**1,147,335**
Unsecured exposures	-	-	-	-	-	-
Total carrying value loans and advances to customers at FVTPL (amount representing exposure to credit risk for each class of loans at FVTPL)	**394,529,262**	**304,232,064**	**17,260,939**	**83,823,576**	**25,910,146**	**1,147,335**

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

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

12 Loans and Advances to Customers (continued)

The effect of collateral on credit assets /FVTPL/ at 31 December 2022 and 31 December 2021 are as follows:

	31 December 2022		31 December 2021	
In thousands of Mongolian Tugriks	**Carrying value of the loan**	**Value of collateral**	**Carrying value of the loan**	**Value of collateral**
Over-collateralised asset	330,152,328	420,429,864	331,305,512	467,877,994
Under-collateralised asset	107,548,020	89,384,863	57,897,463	42,602,000
Total	**437,700,348**	**509,814,727**	**389,202,975**	**510,479,994**

The cumulative total outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2022 and 31 December 2021:

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Loans to corporate customers:		
Loans to Corporates	149,037,792	155,066,038
Loans to SMEs	21,525,250	27,982,554
Loans to individuals:		
Consumer loans	23,071,612	8,420,915
Mortgage loans	-	-
Total	**193,634,654**	**191,469,507**

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

Losses less gains recognised in the profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was MNT 1,688,544 thousands and amortised cost of modified loans was MNT 17,685,494 thousands as of 31 December 2022 (31 December 2021: MNT 848,111 thousands, MNT 10,552,128 thousands respectively).

Refer to Note 42 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 38. Information on related party balances is disclosed in Note 44.

13 Investment Properties

Below is the information on changes in investment properties as follows at 31 December 2022 and 31 December 2021:

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Investment properties at fair value at 1 January	**17,427,586**	**39,671,913**
Disposals	(9,124,994)	(17,818,069)
Transferred from non-current assets classified as held for sale	6,284,573	3,000,000
Transferred to premises and equipment	(938,084)	-
Fair value losses	(3,372,606)	(7,426,258)
Investment properties at fair value at 31 December 2022	**10,276,475**	**17,427,586**

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

During the year, MNT 6,284,573 thousands of assets /office and commercial spaces/ were transferred from Non-Current Assets classified as Held for Sale to Investment properties following management intention to keep it for the capital appreciation.

As of 31 December 2022, rental income of MNT 482,923 thousands (31 December 2021: MNT 113,524 thousands) was generated from investment properties. Direct operating expenses arising from investment property that generated rental income during the period was MNT 3,059 thousands (31 December 2021: MNT 18,157 thousands).

Where the bank is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows at 31 December 2022 and 31 December 2021:

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Not later than 1 year	37,853	42,750
Later than 1 year and not later than 2 years	-	-
Total future operating lease payments receivable	**37,853**	**42,750**

Accounting policy for investment properties is disclosed in Note 4.15.

14 Other Assets

In thousands of Mongolian Tugriks	**31 December 2022**	**31 December 2021**
Other financial assets at FV:		
Precious metals	160,633	6,400,182
Total other financial assets at FV	**160,633**	**6,400,182**
Other financial assets at AC:		
Receivables on cash and settlements services	22,199,583	1,513,068
Receivable from companies	5,161,812	5,864,935
Receivable from individuals	2,334,578	2,211,717
Other financial assets	2,649,865	3,174,862
Less: Credit loss allowance	(4,729,406)	(4,378,717)
Total other financial assets at AC	**27,616,432**	**8,385,865**
Total other financial assets	**27,777,065**	**14,786,047**
Other non-financial assets		
Prepayments for non-current assets	235,161,667	4,715,402
Prepayments for consultation services	-	2,640,000
Prepayments for employees' benefits	4,330,089	3,691,681
Prepayments for rent	584,218	676,680
Other prepayments	10,135,869	9,734,868
Other non-financial assets	5,413,220	3,727,684
Total non-financial assets	**255,625,063**	**25,186,315**
Total other assets	**283,402,128**	**39,972,362**

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

Receivables on cash and settlements services mainly consist of transaction settlement receivables. Significant increases from prior year were due to the transactions made on 31 December 2022 was settled in January as it was a non-business day.

Prepayments for non-current assets mainly relates to a long-term lease agreement the Bank entered into in 2022 to lease an office building which is currently under development. Commencement date of the lease is expected to start from 2024 with 20 years term. In relation to the lease, the Bank made prepayment for the first 10 years of lease payment in the amount of MNT 230,000,000 thousands and the lease payment of the following ten years will be negotiated. The lessor is a foreign company, registered in the Czech Republic, therefore a related party of the Bank has assisted the lessor during the year for contracting and concluding the deal.

The Bank did not recognise right-of-use asset and lease liability for this agreement as of 31 December 2022 as the commencement date of the lease has not started yet.

14 Other Assets (continued)

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

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 2 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
Receivables from companies				
- Excellent	1,726,131	-	-	**1,726,131**
- Good	-	2,992	-	**2,992**
- Satisfactory	-	-	2,203	**2,203**
- Default	-	-	3,430,486	**3,430,486**
Gross carrying amount	**1,726,131**	**2,992**	**3,432,689**	**5,161,812**
Less: Credit loss allowance	(8,050)	(149)	(3,074,042)	**(3,082,241)**
Carrying amount	**1,718,081**	**2,843**	**358,647**	**2,079,571**
Receivables from individuals				
- Excellent	530,828	-	-	**530,828**
- Good	-	9,878	-	**9,878**
- Satisfactory	-	-	19,104	**19,104**
- Special monitoring	-	-	12,788	**12,788**
- Default	-	-	1,761,980	**1,761,980**
Gross carrying amount	**530,828**	**9,878**	**1,793,872**	**2,334,578**
Less: Credit loss allowance	(1,340)	(220)	(1,645,443)	**(1,647,003)**
Carrying amount	**529,488**	**9,658**	**148,429**	**687,575**
Receivables on cash and settlements services				
- Excellent	22,197,664	-	-	**22,197,664**
- Good	-	1,919	-	**1,919**
Gross carrying amount	**22,197,664**	**1,919**	**-**	**22,199,583**
Less: Credit loss allowance	(67)	(96)	-	**(163)**
Carrying amount	**22,197,597**	**1,823**	**-**	**22,199,420**
Other financial asset				
- Excellent	2,649,865	-	-	**2,649,865**
Gross carrying amount	**2,649,865**	**-**	-	**2,649,865**
Less: Credit loss allowance	-		-	**-**
Carrying amount	**2,649,865**		**-**	**2,649,865**

14 Other Assets (continued)

Tables below contain an analysis of the credit risk exposure of other financial assets at AC at 31 December 2021.

In thousands of Mongolian Tugriks	Stage 1 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
Receivables from companies			
- Excellent	2,568,375	-	**2,568,375**
- Good	454,157	-	**454,157**
- Default	-	2,842,403	**2,842,403**
Gross carrying amount	**3,022,532**	**2,842,403**	**5,864,935**
Less: Credit loss allowance	(68,490)	(2,842,403)	**(2,910,893)**
Carrying amount	**2,954,042**	**-**	**2,954,042**
Receivables from individuals			
- Excellent	869,709	-	**869,709**
- Default	-	1,342,008	**1,342,008**
Gross carrying amount	**869,709**	**1,342,008**	**2,211,717**
Less: Credit loss allowance	(19,588)	(1,342,008)	**(1,361,596)**
Carrying amount	**850,121**	**-**	**850,121**
Receivables on cash and settlements services			
- Excellent	1,513,068	-	**1,513,068**
Gross carrying amount	**1,513,068**	**-**	**1,513,068**
Less: Credit loss allowance	(34,286)	-	**(34,286)**
Carrying amount	**1,478,782**	**-**	**1,478,782**
Other financial asset			
- Excellent	3,174,862	-	**3,174,862**
Gross carrying amount	**3,174,862**	**-**	**3,174,862**
Less: Credit loss allowance	(71,942)	-	**(71,942)**
Carrying amount	**3,102,920**	**-**	**3,102,920**

14 Other Assets (continued)

Movements in the provision for asset impairment are as follows at 31 December 2022:

In thousands of Mongolian Tugriks	Receivable from companies	Receivable from individuals	Receivables on cash and settlement services	Other financial assets	Total
Expected credit loss allowance of other assets at 1 January 2022	**2,910,893**	**1,361,596**	**34,286**	**71,942**	**4,378,717**
Credit loss allowance charge/(recovery) during the year	334,305	567,834	(34,123)	-	**868,016**
Exchange difference	-	28,882	-	-	**28,882**
Amounts written off during the year as uncollectible	(162,957)	(383,251)	-	-	**(546,208)**
Expected credit loss allowance of other assets at 31 December 2022	**3,082,241**	**1,575,061**	**163**	**71,942**	**4,729,407**

The receivables that are not expected to be fully paid are written off in accordance with the Board of Directors' resolution during 2022.

Movements in the provision for asset impairment during 2021 are as follows:

In thousands of Mongolian Tugriks	Receivable from companies	Receivable from individuals	Receivables on cash and settlement services	Other financial assets	Total
Expected credit loss allowance of other assets at 1 January 2021	**2,732,225**	**2,804,180**	**855**	**-**	**5,537,260**
Credit loss allowance charge/(recovery) during the year	1,956	453,182	33,431	51,282	**539,851**
Transfer to repossessed collateral	-	(449,572)	-	-	**(449,572)**
Exchange difference	178,265	(21,723)	-	20,660	**177,202**
Amounts written off during the year as uncollectible	(1,553)	(1,424,471)	-	-	**(1,426,024)**
Expected credit loss allowance of other assets at 31 December 2021	**2,910,893**	**1,361,596**	**34,286**	**71,942**	**4,378,717**

15 Intangible Assets

In thousands of Mongolian Tugriks	**Computer software licences**	**Land use right**	**Total**
Cost at 1 January 2021	**37,995,715**	**673,313**	**38,669,028**
Accumulated amortization	(21,914,684)	-	**(21,914,684)**
Carrying amount at 1 January 2021	**16,081,031**	**673,313**	**16,754,344**
Additions	5,018,105	-	**5,018,105**
Transfers	12,079	-	**12,079**
Amortisation	(3,837,579)	-	**(3,837,579)**
Disposal	(98,277)	-	**(98,277)**
Carrying amount at 31 December 2021	**17,175,359**	**673,313**	**17,848,672**
Cost at 1 January 2022	**42,944,586**	**673,313**	**43,617,899**
Accumulated amortization	(25,769,227)	-	(25,769,227)
Carrying amount at 1 January 2022	**17,175,359**	**673,313**	**17,848,672**
Additions	9,142,996	20,000	**9,162,996**
Amortisation	(6,063,280)	-	**(6,063,280)**
Carrying amount at 31 December 2022	**20,255,075**	**693,313**	**20,948,388**

16 Premises and Equipment

In thousands of Mongolian Tugriks	**Premises**	**Motor vehicles**	**Office equipment and computers**	**Furniture**	**Leasehold im-provement**	**Construction in progress**	**Total premises and equipment**
Cost/valuation at 1 January 2021	111,782,210	3,272,108	77,982,670	8,222,210	6,469,952	650,454	**208,379,604**
Accumulated depreciation	(7,489,265)	(1,571,053)	(47,990,848)	(3,390,776)	(3,802,206)	-	**(64,244,148)**
Carrying amount at 1 January 2021	**104,292,945**	**1,701,055**	**29,991,822**	**4,831,434**	**2,667,746**	**650,454**	**144,135,456**
Additions	1,311,709	750,800	20,682,789	461,722	2,588,206	-	**25,795,226**
Transfers	-	-	(26,308)	-	-	-	**(26,308)**
Disposals	-	(418,513)	(1,031,797)	(59,851)	-	-	**(1,510,161)**
Write-offs	-	-	(3,071,381)	(91,835)	-	-	**(3,163,216)**
Charge for the year	(3,444,849)	(327,855)	(12,901,737)	(532,962)	(2,063,179)	-	**(19,270,582)**
Transfers of accumulated depreciation	-	-	20,057	-	-	-	**20,057**
Disposals of accumulated depreciation	-	405,977	441,730	46,344	-	-	**894,051**
Write-offs of accumulated depreciation	-	-	3,053,815	91,004	-	-	**3,144,819**
Carrying amount at 31 December 2021	**102,159,805**	**2,111,464**	**37,158,990**	**4,745,856**	**3,192,773**	**650,454**	**150,019,342**
Cost/valuation at 1 January 2022	**113,093,920**	**3,604,395**	**94,535,972**	**8,532,246**	**9,058,157**	**650,454**	**229,475,144**
Accumulated depreciation	(10,934,115)	(1,492,931)	(57,376,983)	(3,786,390)	(5,865,384)	-	(79,455,803)
Carrying amount at 1 January 2022	**102,159,805**	**2,111,464**	**37,158,990**	**4,745,856**	**3,192,773**	**650,454**	**150,019,342**
Additions	4,025,018	658,000	14,732,326	844,575	2,810,824	-	**23,070,743**
Transfers	-	-	(175,297)	142,433	-	-	**(32,864)**
Disposals	-	(346,455)	(415,376)	(66,523)	-	-	**(828,354)**
Write-offs	-	-	(2,845,223)	(129,146)	-	-	**(2,974,369)**
Charge for the period	(3,474,442)	(367,312)	(15,193,738)	(523,770)	(1,852,211)	-	**(21,411,473)**
Transfers of accumulated depreciation	-	-		33,872	-	-	**33,872**
Disposals of accumulated depreciation	-	329,980	135,139	51,322	-	-	**516,441**
Write-offs of accumulated depreciation	-	-	2,845,195	129,108	-	-	**2,974,303**
Carrying amount at 31 December 2022	**102,710,381**	**2,385,677**	**36,242,016**	**5,227,727**	**4,151,386**	**650,454**	**151,367,641**

16 Premises and Equipment (continued)

Premises have been revalued at fair value as at 31 December 2022. The valuation was carried out by an independent firm of appraisers, Fine Estimates LLC and Gerege Estimates LLC whom hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category. The basis used for the appraisal use both market approach (average market value of the similar premises located in the Ulaanbaatar) cost approach side by side to neutralize any bias on the premises being valued.

At 31 December 2022, the carrying amount of premises would have been MNT 95,715,719 thousands (2021: MNT 94,914,703 thousands) had the assets been carried at cost less depreciation.

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

In thousands of Mongolian Tugriks	**31 December 2022**	**31 December 2021**
Premises at revalued amount in the statement of financial position	102,710,381	102,159,805
Revaluation reserve presented in equity	(6,994,662)	(7,245,102)
Premises at cost less accumulated depreciation	**95,715,719**	**94,914,703**

Refer to Note 42 for the disclosure for inputs and model used to determine fair value and its sensitivity analysis.

17 Right of Use Assets

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

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

In thousands of Mongolian Tugriks	**Buildings**	**Other**	**Total**
Carrying amount at 1 January 2021	**7,074,760**	**2,807,976**	**9,882,736**
Additions	8,595,473	-	**8,595,473**
Disposals	(192,198)	-	**(192,198)**
Depreciation charge	(4,558,618)	(726,245)	**(5,284,863)**
Carrying amount at 31 December 2021	**10,919,417**	**2,081,731**	**13,001,148**
Additions	8,090,621	1,192	**8,091,813**
Disposals	(234,333)	-	**(234,333)**
Depreciation charge	(4,954,003)	(712,003)	**(5,666,006)**
Carrying amount at 31 December 2022	**13,821,702**	**1,370,920**	**15,192,622**

As of 31 December 2022, interest expense on lease liabilities was MNT 1,481,221 thousands (31 December 2021: MNT 1,560,592 thousands).

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

17 Right of Use Assets (continued)

In thousands of Mongolian Tugriks	Note	31 December 2022	31 December 2021
Expense relating to short-term leases	29	1,923,903	1,397,273

Total cash outflow for leases as of 31 December 2022 was MNT 9,604,783 thousands (2021: MNT 8,117,052 thousands).

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

18 Repossessed Collateral

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Financial assets at fair value	6,146,252	59,418,813
Non-financial assets at cost	123,115,315	109,706,448
Less: Impairment provision	(86,070,246)	(62,172,093)
Total repossessed collaterals	**43,191,321**	**106,953,168**

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

During 2022, the Bank recognised MNT 16,901,051 thousands (2021: MNT 69,461,677 thousands) repossessed collateral through foreclosure process and reclassified assets in value of MNT 9,557,812 thousands to Non-Current Assets classified as Held for Sale, following the management's intentions in relation to those assets.

During the year, MNT 63,422,364 thousands (2021: MNT 11,860,012 thousands) of assets were transferred from Non-Current Assets classified as Held for Sale to repossessed collateral.

In 2022, fair value loss of financial repossessed collateral was MNT 45,272,561 thousands (2021: MNT 30,337,628 thousands). Please refer to Note 3.18.

Non-financial assets at cost represent premises, which the Bank has acquired in the process of settlement of overdue loans. The impairment provision disclosed above fully relates to non-financial assets.
For the accounting policy applied refer to Note 4.29.

18 Repossessed Collateral (continued)

Movements in the provision for repossessed non-financial collaterals during 2022 and 2021 are as follows:

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Provision for repossessed collaterals at 1 January	**62,172,093**	**39,722,685**
Provision for impairment during the year	51,625,237	17,013,863
Provision of assets transferred from non-current assets held for sale	-	5,086,192
Provision of assets transferred from other assets	-	449,572
Amounts written off during the year as uncollectible	(6,463,242)	(100,219)
Provision for sold assets	(21,263,842)	-
Provision for repossessed collaterals at 31 December	**86,070,246**	**62,172,093**

19 Non-Current Assets Classified as Held for Sale

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

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

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Office and commercial spaces	2,155,349	63,735,430
Residential apartments or houses	2,727,220	10,349,106
Buildings	900,000	-
Other	905,006	-
Total non-current assets held for sale	**6,687,575**	**74,084,536**

During 2022, the Bank sold offices, commercial spaces and residential apartments in amount of MNT 9,784,472 thousands (31 December 2021: 14,371,377 thousands). During the year, MNT 63,422,364 thousands of assets were transferred from Non-Current Assets classified as Held for Sale to repossessed collateral, MNT 9,557,812 thousands of assets were transferred from repossessed collateral to non-current asset held for sale.

20 Due to Other Banks

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Short-term placements of other banks	52,394,763	16,782,536
Total due to other banks	**52,394,763**	**16,782,536**

Amount due to other banks and financial institutions represent foreign currency and local currency accounts with Mongolian and foreign banks. Significant increase in due to other banks related to MNT 40,000,000 thousands of overnight deposit with domestic bank.

Refer to Note 42 for the disclosure of the fair value of each class of due to other banks. Currency, interest rate and maturity analysis of due to other banks are disclosed in Note 38.

21 Customer Accounts

In thousands of Mongolian Tugriks	**31 December 2022**	**31 December 2021**
Individuals	**3,048,396,232**	**3,226,617,157**
- Current/demand accounts	584,816,587	411,897,832
- Demand deposits	417,143,204	536,054,590
- Term deposits	2,046,436,441	2,278,664,735
Legal entities	**2,111,440,787**	**1,886,308,143**
- Current/settlement accounts	1,653,140,375	1,282,428,342
- Demand deposits	5,636,882	101,671,072
- Term deposits	452,663,530	502,208,729
State and public organizations	**522,698,005**	**269,204,943**
- Current/settlement accounts	481,916,068	59,415,348
- Demand deposits	3,046,468	185,260,970
- Term deposits	37,735,469	24,528,625
Other	**60,762,843**	**81,413,147**
- Current/demand accounts	38,191,925	49,176,296
- Demand deposits	9,416	492,516
- Term deposits	22,561,502	31,744,335
Total customer accounts	**5,743,297,867**	**5,463,543,390**

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

The management currently does not monitor concentration of customer accounts per economic sectors. Therefore, related information is not disclosed in these financial statements. At 31 December 2022, the aggregate amount of the top 30 biggest customers is MNT 1,379,910,348 thousands (31 December 2021: MNT 1,175,753,305 thousands) or 24% of total customer accounts (31 December 2021: 22%).

At 31 December 2022, included in customer accounts are deposits of MNT 40,661,342 thousands (31 December 2021: MNT 50,981,406 thousands) held as collateral for irrevocable commitments under bank guarantee and letter of credit.

Interest rate analysis of customer accounts is disclosed in Note 38. Information on related party balances is disclosed in Note 44.

22 Other Borrowed Funds

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
(a) Borrowed funds under projects		
Borrowed funds under Project /MNT/	491,692,237	394,783,842
Borrowed funds under Project /USD/	222,145	229,457
Total borrowed funds under projects	**491,914,382**	**395,013,299**
(b) Borrowings from foreign banks and financial institutions		
Borrowings from other foreign bank /USD/	1,404,347,293	1,059,698,703
(c) Trade finance from foreign banks and financial institutions		
Trade finance from foreign banks and financial institutions /USD/	4,489,570	48,586,576
Trade finance from foreign banks and financial institutions /EUR/	12,018,424	6,147,449
Trade finance from foreign banks and financial institutions /CNY/	3,542,423	-
Total borrowings from foreign banks and financial institutions	**1,424,397,710**	**1,114,432,728**
TOTAL	**1,916,312,092**	**1,509,446,027**

(a) Borrowed funds under projects

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Government price stabilization program		
Housing mortgage program	330,298,612	228,790,214
Fuel reserve program	86,094,425	71,278,311
Project on gold production 2	41,551,434	57,113,160
Project loan of KFW bank	576,307	992,000
Other borrowing under project	-	937,500
Projects financed by Development Bank of Mongolia		
Wheat program	-	300,374
Joint projects of Mongolian government and JICA		
Borrowings under SME industry support fund	5,779,061	6,020,716
Joint project of Credit guarantee fund and ADB		
Borrowings under SME industry support fund	2,522,545	904,084
Other government projects		
Borrowings under Agriculture and Rural Development Project	24,864,743	28,430,319
Other borrowing under project	222,145	229,457
Student development program	5,110	17,164
Total	**491,914,382**	**395,013,299**

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

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

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

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

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

In 2021, the Bank participated in new program funded by Bank of Mongolia for financing fuel supply companies to increase the fuel reserves of Mongolia. Under this program, the Bank obtained funding at interest rates of 6-9.5% p.a. with maturity date of 28 December 2023 and issued loans to the companies at advantageous interest rate of 9-12.5% p.a. The Bank approves all loan disbursement and bears the credit risk.

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

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

In 2011, the Bank received borrowings from JICA at an interest rate of 2.0% p.a. The project purpose is to support SMEs and environmental protection projects. Under this program, the Bank obtained funding at interest rates of 2% p.a. with maturity date of 1 October 2032 and issued loans to SMEs at advantageous interest rate of 6% p.a.

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

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

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

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

Category	Funding source	Name of Project	Currency	Disbursement date	Maturity date	Principle balance as of 31 December 2022 in thousands of original currencies	Principle balance as of 31 December 2022 in thousands of MNT
Government price stabilization program	Bank of Mongolia	Housing mortgage program	MNT	6/14/2013	12/31/2024	330,298,612	330,298,612
	Bank of Mongolia	Fuel reserve program	MNT	12/31/2021	12/28/2023	86,094,426	86,094,425
	Bank of Mongolia	Project on gold production 2	MNT	7/8/2020	12/31/2025	41,551,434	41,551,434
	Bank of Mongolia	Project loan of KFW bank	MNT	5/16/2013	6/25/2025	576,307	576,307
Joint projects of Mongolian government and JICA	JICA	Borrowings under SME industry support fund	MNT	6/12/2009	10/1/2032	5,779,061	5,779,061
Joint projects of Credit guarantee fund and ADB	ADB	Borrowings under SME industry support fund	MNT	5/18/2021	12/31/2032	2,522,545	2,522,545
Other government projects	Government	Borrowings under Agriculture and Rural Development Project	MNT	12/28/2016	10/25/2029	24,864,743	24,864,743
	Government	Other borrowing under project	USD	4/1/2020	5/1/2027	64	222,145
	Government	Student development program	MNT	12/6/2016	12/5/2026	5,110	5,110

22 Other Borrowed Funds (continued)

(b) Borrowings from foreign banks and financial institutions

Borrowings from other foreign bank represent loans obtained from foreign banks and financial institution in the amount between USD 5,000 thousands and USD 100,000 thousands with maturity range of 12 months to 100 months as of 31 December 2022 (2021: between USD 5,000 thousands and USD 100,000 thousands with maturity range of 12 months to 97 months). USD 300,000 thousands of those borrowings are collateralized by the Bank's current account at the lending banks and USD 25,000 thousands of borrowings are collateralized by Government securities at FVTOCI. Please refer to the Note 10.

During 2022, several borrowings have been obtained with total amount of USD 53,250 thousands with original maturity range of 10 to 48 months.

(c) Trade finance from foreign banks and financial institutions

The Bank obtained uncommitted revolving trade credit lines from international banks and financial institutions to fund its trade loans to customers. As of 31 December 2022, the Bank utilised MNT 121,435,331 thousands (31 December 2021: MNT 159,228,691 thousands) of related credit lines and issued loans for the same amount. International banks and financial institutions for the purpose of import financing of transactions of customers provide funding. The term of such funding is up to 2 years and cash flows from customers and payment to foreign banks are matching in terms of the timing of payment and principal amount. The Bank bears the credit risk in the case of non-payment by the customer.

At 31 December 2022, the Bank has no breach on borrowings from foreign banks and financial institutions.

Refer to Note 42 for the disclosure of fair value of other borrowed funds. Currency, interest rate and maturity analysis of other borrowed funds are disclosed in Note 38.

The information about the covenants is disclosed in the Note 40.

23 REPO Arrangements

As of 31 December 2022, MNT 169,906,728 thousands (31 December 2021: MNT 221,912,121 thousands) of sale and repurchase agreements relate to placements from local banks bearing interest rate ranging from 6.0% to 7.0% p.a. (2021: from 6-6.5% p.a), with original maturities of 730 and 1095 days (2021: 723-730 days). These placements are fully collateralized by the Bank of Mongolia treasury bills disclosed in Note 10. Following the law of prevention, control and reduction of social and economic impact of coronavirus, the Bank participated in a government program to provide loans to non-mining export sector and small and medium enterprises with interest rate of 10.5%, financed by repo arrangements with the central bank.

During 2022, the Bank entered into MNT 41,440,916 thousands of sale and repurchase agreements to increase its USD reserves. These placements are fully collateralized by the corporate bond at FVTOCI bills disclosed in Note 10.

24 Other Liabilities

Other liabilities comprise the following:

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Other financial liabilities at AC:	**115,112,290**	**61,772,998**
Liabilities for settlements of transactions	100,236,168	43,600,802
Liabilities for loans sold to MIK with recourse	739,444	1,010,996
Trade payable	124,846	284,818
Provision for credit related commitments	1,447,410	938,074
Other	12,564,422	15,938,308
Other non-financial liabilities:	**16,193,945**	**9,061,448**
Taxes payable other than on income	5,028,759	2,881,161
Payables to employees	7,135,889	3,850,364
Other	4,029,297	2,329,923
Total other liabilities	**131,306,235**	**70,834,446**

Liabilities for settlement transactions were increased as at 31 December 2022 in relation to the softening of the international border restrictions and the last day of the year was a non-business day which resulted an increase in international payments comparing to those in December 2021. The increase in payables to employees is due to the salary increase.

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

25 Share Capital

In thousands of Mongolian Tugriks except for number of shares	Number of outstanding shares	Ordinary shares	Treasury shares	Share premium	Preference shares	Treasury preferred shares	Total
At 1 January 2021	**42,159,537**	**42,240,037**	**(80,500)**	**291,843,805**	**25,778,900**	**(9,390,800)**	**350,391,442**
Increase in the nominal value of shares by share premium	-	126,720,111	(241,500)	(126,478,611)	-	-	-
Share split	632,393,055	-	-	-	-	-	**-**
Other	-	-	-	4,120,850	-	-	**4,120,850**
At 31 December 2021	**674,552,592**	**168,960,148**	**(322,000)**	**169,486,044**	**25,778,900**	**(9,390,800)**	**354,512,292**
At 1 January 2022	**674,552,592**	**168,960,148**	**(322,000)**	**169,486,044**	**25,778,900**	**(9,390,800)**	**354,512,292**
New shares issued	134,104,714	33,526,179	-	131,788,974	-	-	**165,315,153**
Treasury stocks	-	-	-	-	-	(16,388,100)	**(16,388,100)**
Share retirement	-	(322,000)	322,000	206,102	(25,778,900)	25,778,900	**206,102**
At 31 December 2022	**808,657,306**	**202,164,327**	**-**	**301,481,120**	**-**	**-**	**503,645,447**

The nominal registered amount of the Bank's issued share capital is MNT 202,164,327 thousand (2021: MNT 168,638,148 thousand). Share premium represents the excess of contributions received over the nominal value of shares issued. The number of ordinary shares issued in 2022 was 134,104,714 with par value MNT 250.

25 Share Capital (Continued)

Ordinary shares:

As of 31 December 2022, the Bank has total authorised number of ordinary shares of 808,657,306 shares (31 December 2021: 674,552,592 shares), with a par value of MNT 250 per share (31 December 2021: with a par value of MNT 250 per share). Each ordinary share carries one vote. Each ordinary share carries equal right to participate in profits and obtain dividends, as declared from time to time by the general shareholders meeting, and to participate in net assets upon the entity's liquidation.

By the decision of the board of directors, 1,288,000 ordinary treasury shares in the amount of MNT 322,000 thousand were retired. The following table shows issued shares during 2022:

Shareholder	Number of shares	Par amount	Subscription price per share	Date
Bodi International LLC	27,661,497	250	1,084.54	4/11/2022
Golomt Financial Group LLC	13,980,063	250	1,180.25	6/29/2022
Initial Public Offering	92,463,154	250	1,285.00	12/8/2022

According to amendments to the Banking law, systemic banks must be open as joint-stock companies within 30 June 2023. The bank offered its 10.09% by issuing 80,402,743 shares for MNT 103,317,525 thousands. Due to the high demand for the shares during the subscription process, the cash received during the IPO was increased to MNT 118,815,153 thousands from 21,248 new shareholders for offering 11.43% of the Bank's shares (92,463,154 share).

The shareholders of the Bank as of 31 December 2022 and 31 December 2021 and the percentages of ownership are as follows:

Shareholder	31 December 2022	31 December 2021
	Ownership (%)	Ownership (%)
Golomt Financial Group Co.,Ltd	77.20%	90.47%
Swiss-Mo Investment A.G	5.21%	6.25%
Bodi International Co.,Ltd	3.42%	-
Golomt Investment Limited Co.,Ltd	2.57%	3.08%
ESOP	-	0.20%
Public shares	11.60%	-
Total	**100%**	**100%**

In the statement of Changes in Equity reflected under Other are disbursements made on transactions with shareholders and expenses directly attributable to equity.

Preferred shares

Mr.Zorigt, a business partner of Mr.Bayasgalan, held 25,778,900 preferred shares with USD 15,000,000, which is equivalent to MNT 25,778,900 thousand issued on 19 December 2013 and terms are further amended on 26 December 2013. Preferred shareholders had a right to receive dividend income of 6% from its investment. Preferred shareholders had a priority right over ordinary shareholders in case of liquidation.

In 2022, the shareholders made a decision to reacquire 16,388,100 preferred shares at a price of MNT 1,870.85 per share. Subsequently, board of directors cancelled total of 25,778,900 preferred treasury shares in the amount of MNT 25,778,900 thousand.

26 Interest Income and Expense

In thousands of Mongolian Tugriks	2022	2021
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	443,987,232	405,726,646
Debt securities FVTOCI	88,493,920	90,177,800
Due from other banks at AC	22,922,861	21,178,571
Cash deposited in the Bank of Mongolia	20,131,192	8,343,480
Debt securities at AC	608,832	629,364
Reverse repurchase agreements at AC	240,894	430,319
Total interest income calculated using the effective interest method	**576,384,931**	**526,486,180**
Other similar income		
Loans and advances to customers at FVTPL	16,829,606	15,333,163
Debt securities FVTPL	16,694,628	12,958,259
Total other similar income	**33,524,234**	**28,291,422**
Total interest income	**609,909,165**	**554,777,602**
Interest expense		
Customer accounts	(149,218,403)	(219,370,453)
Other borrowed funds	(57,326,437)	(43,690,195)
Due to other banks	(2,259,750)	(1,165,596)
Repurchase agreements	(14,052,571)	(7,031,713)
Total interest expense	**(222,857,161)**	**(271,257,957)**
Other similar expense		
Lease liabilities	(1,481,221)	(1,560,592)
Total other similar expense	**(1,481,221)**	**(1,560,592)**
Total interest and other similar expense	**(224,338,382)**	**(272,818,549)**
Net interest income	**385,570,783**	**281,959,053**

Interest income from cash and balances with central bank includes of MNT 9,368,891 thousands (31 December 2021: MNT 4,347,316 thousands), which relates to interest income on placed mandatory reserves received from the Bank of Mongolia based on the resolution of the Bank of Mongolia applicable to all local banks, as the Bank maintained the required level of mandatory reserve during 2022. Increase in interest income from loans and advances related to the overall increase in the interest rates in relation to increase in policy rate and loan disbursement. During 2022, the interest expense of customer accounts have decreased in relation to the law of prevention, control and reduction of social and economic impact of coronavirus and banks stopped paying interest on demand deposits.

Interest income includes approximately MNT 31,811,210 thousands (31 December 2021: MNT 34,714,061 thousands) of interest income, recognised on credit impaired loans to customers.

Management believes that related amounts are fully recoverable, given that impaired loans and advances to customers have high collateral coverage and that non-recoverable amount of interest income is not recognised in the profit or loss account for 2022 and 2021 in accordance with IFRS requirements.

27 Fee and Commission Income and Expense

In thousands of Mongolian Tugriks	2022	2021
Fee and commission income		
Commissions on operations with plastic cards	48,568,076	34,959,219
Remittance and other service fees	24,130,506	16,350,075
Commissions on documentary business and guarantees	6,174,736	7,226,156
Account service fee and commissions	4,952,097	3,558,151
Brokerage and other service fee	306,563	399,541
Total fee and commission income	**84,131,978**	**62,493,142**
Fee and commission expense		
Commissions on operations with plastic cards	(33,549,252)	(16,882,816)
Bank service expense	(4,904,527)	(3,455,651)
Online transaction expense	(1,388,439)	(1,024,110)
Brokerage and other service fee	(118,967)	(351,651)
Total fee and commission expense	**(39,961,185)**	**(21,714,228)**
Net fee and commission income	**44,170,793**	**40,778,914**

28 Other Operating Income

In thousands of Mongolian Tugriks	2022	2021
Income from repayment of loans which were previously written off	-	2,387,514
Other	1,154,973	1,447,486
Total other operating income	**1,154,973**	**3,835,000**

As of 31 December 2022, the bank reclassified income from repayment loans which were previously written off to credit loss allowance.

29 Administrative and Other Operating Expenses

In thousands of Mongolian Tugriks	Note	2022	2021
Staff costs		64,373,012	51,099,483
Information, consulting and other professional services		38,996,968	30,546,073
Depreciation of premises and equipment	16	21,411,473	19,270,582
Depreciation of right of use assets	17	5,666,006	5,284,863
Amortisation of software and other intangible assets	15	6,063,280	3,837,579
Advertising and marketing services		6,072,956	3,491,855
Stationery expense		3,495,573	2,927,494
Security expense		2,326,850	2,711,355
Taxes (other than income tax)		2,100,901	2,266,791
Loan collection expenses		2,010,466	2,084,904
Telecommunications expense		2,181,413	1,828,331
Short term lease expense		1,923,903	1,397,273
Office cleaning expense		1,502,596	1,166,351
Utilities		1,447,049	1,070,331
Voluntary and mandatory insurance		1,055,333	1,052,974
Transportation		1,904,931	1,263,585
Entertainment		1,274,123	572,851
Travelling expenses		735,637	77,958
Donations		386,830	31,000
Other		10,416,611	5,157,964
Total administrative and other operating expenses		**175,345,911**	**137,139,597**

In thousands of Mongolian Tugriks	2022	2021
Staff costs consist of:		
Salaries, wages and bonus	55,360,029	44,660,813
Contribution to social and health fund	6,780,120	5,212,296
Share-based payments	847,461	-
Staff benefits	658,404	633,897
Pension fund	260,466	282,431
Staff training	466,532	310,046
Total staff costs	**64,373,012**	**51,099,483**

Significant increase in staff costs related to salary increases. During 2022, the bank offered its own stock options to its employees.

30 Other gains/(losses), net

In thousands of Mongolian Tugriks	2022	2021
Gains less losses on disposal of investment properties	(1,608,563)	830,859
Gains less losses on disposal of premises and equipment	197,376	82,161
Losses less gains on disposal of repossessed collateral	(69,680)	(2,780,939)
Losses less gains on disposal of non-current asset held for sale	(188,375)	414,498
Total other gains/(losses), net	**(1,669,242)**	**(1,453,421)**

In 2022, the Bank sold offices, commercial spaces and residential apartments in amount of MNT 45,818,630 thousands.

31 Income Taxes

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

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

In thousands of Mongolian Tugriks	**2022**	**2021**
Current tax	53,291,941	30,465,021
Deferred tax	24,003,995	(3,830,793)
Income tax expense for the year	**77,295,936**	**26,634,228**

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

The Bank provides for income taxes on the basis of income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% for the first MNT 6 billion (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) in accordance with Mongolian tax legislation.

In thousands of Mongolian Tugriks	**2022**	**2021**
Profit before tax	**193,797,984**	**52,570,894**
Theoretical tax charge at statutory rate (2022: 25%; 2021: 25%)	48,449,496	13,142,724
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Effect of income subject to lower rate	(900,000)	(900,000)
- Income which is exempt from taxation	(2,393,903)	(2,250,395)
- Income which is taxed at different rates	(500,513)	(351,064)
- Non-deductible expenses	1,469,614	1,524,472
Unrecognised deferred tax assets	31,171,242	15,468,491
Income tax expense for the year	**77,295,936**	**26,634,228**

Please refer to 3.3.19 for details of unrecognised deferred tax assets.

(c) Deferred taxes analysed by type of temporary difference

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

31 Income Taxes (continued)

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

In thousands of Mongolian Tugriks	1 January 2022	Credited/ (charged) to profit or loss	Charged directly to OCI	31 December 2022
Tax effect of deductible / (taxable) temporary differences and tax loss carry forwards:				
Provision charge for repossessed collateral, gains less losses on revaluation of investment properties and provision for non-current asset held for sale	**19,317,001**	21,872,014	-	**41,189,015**
Impairment of buildings	**9,658,852**	(534,902)	-	**9,123,950**
Initial loss and modification loss related to loans and advances	**5,434,701**	(3,732,235)	-	**1,702,466**
Prepaid income – loan origination fee	**3,729,800**	682,650	-	**4,412,450**
Loan and advances to customers	**3,691,282**	1,085,453	-	**4,776,735**
Tax losses carry forwards	**952,354**	(952,354)	-	**-**
Fair valuation of securities at FVTOCI	**212,093**	(1,021,910)	12,745,304	**11,935,487**
Credit loss allowance of due from other banks	**57,798**	896,102	-	**953,900**
Credit loss allowance of securities at AC and FVTOCI	**46,833**	1,237,709	-	**1,284,542**
Total deferred tax assets	**43,100,714**	**19,532,527**	**12,745,304**	**75,378,545**
Allowance for deferred tax assets	**-**	(31,171,242)	-	**(31,171,242)**
Deferred tax asset after allowance	**43,100,714**	**(11,638,715)**	**12,745,304**	**44,207,303**
Fair value changes of derivative financial instruments	**(38,857,755)**	(11,886,449)	-	**(50,744,204)**
Loans and advances to customers - interest income on loans overdue more than 90 days	**(11,852,602)**	2,482,041	-	**(9,370,561)**
Fair valuation of securities at FVTPL	**(685,726)**	(2,781,993)	-	**(3,467,719)**
Other	**(1,189,228)**	(178,879)	-	**(1,368,107)**
Total deferred tax liabilities	**(52,585,311)**	**(12,365,280)**	**-**	**(64,950,591)**
Net deferred tax (liability)	**(9,484,597)**	**(24,003,995)**	**12,745,304**	**(20,743,288)**

31 Income Taxes (continued)

The tax effect of the movements in these temporary differences in 2021 is detailed below and is recorded at the rate of 25%:

In thousands of Mongolian Tugriks	1 January 2021	Credited/ (charged) to profit or loss	Charged directly to OCI	31 December 2020
Tax effect of deductible / (taxable) temporary differences and tax loss carry forwards:				
Provision charge for repossessed collateral, gains less losses on revaluation of investment properties and provision for non-current asset held for sale	**13,570,208**	5,746,793	-	**19,317,001**
Impairment of buildings	**10,193,753**	(534,902)	-	**9,658,851**
Initial loss and modification loss related to loans and advances	**4,775,169**	659,533	-	**5,434,702**
Prepaid income – loan origination fee	**2,306,092**	1,423,708	-	**3,729,800**
Loan and advances to customers	**3,724,018**	(32,736)	-	**3,691,282**
Tax losses carry forwards	**952,354**	-	-	**952,354**
Fair valuation of securities at FVTOCI	**4,287,403**	(3,116,527)	(958,783)	**212,093**
Credit loss allowance of due from other banks	**61,195**	(3,398)	-	**57,797**
Credit loss allowance of securities at AC and FVTOCI	**692,091**	(645,258)	-	**46,833**
Total deferred tax assets	**40,562,283**	**3,497,213**	**(958,783)**	**43,100,713**
Fair value changes of derivative financial instruments	**(38,793,904)**	(66,624)	-	**(38,860,528)**
Loans and advances to customers - interest income on loans overdue more than 90 days	**(11,822,362)**	(30,240)	-	**(11,852,602)**
Fair valuation of securities at FVTPL	**(1,340,863)**	655,136	-	**(685,727)**
Tax loss carry forwards	**(961,761)**	(224,692)	-	**(1,186,453)**
Total deferred tax liabilities	**(52,918,890)**	**333,580**	**-**	**(52,585,310)**
Net deferred tax asset/(liability)	**(12,356,607)**	**3,830,793**	**(958,783)**	**(9,484,597)**

32 Other Comprehensive Income Recognised in Each Component of Equity

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

In thousands of Mongolian Tugriks	2022	2021
Change in value of:		
Items that will be reclassified to profit or loss:		
Debt securities at fair value through other comprehensive income:		
- Losses less gains arising during the year	(50,471,551)	2,680,637
- Gains less losses reclassified to profit or loss upon disposal	48,339	626
Income tax recorded directly in other comprehensive income	12,605,803	(670,316)
Items that will not be reclassified to profit or loss:		
Losses less gains on investments in equity securities at fair value through other comprehensive income	(558,251)	1,153,870
Income tax recorded directly in other comprehensive income	139,563	(288,468)
Other comprehensive income	**(38,236,097)**	**2,876,349**

33 Dividends

	2022		2021	
In thousands of Mongolian Tugriks	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January				
Dividends declared during the year	-	555,404	-	1,709,458
Dividends paid during the year	-	(555,404)	-	(1,709,458)
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividend per share		**5.9%**		**10.4%**

34 Earnings per Share

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

In thousands of Mongolian Tugriks /except for earning per share/	2022	2021
Profit/(loss) for the year attributable to the shareholders of the Bank	**116,502,048**	**25,936,666**
Less preference dividends declared	(555,404)	(1,709,458)
Less undistributed profit or loss for the year attributable to preference shareholders based on terms of the shares	-	-
Less interest payments on perpetual subordinated loan	-	-
Profit for the year attributable to the ordinary shareholders of the Bank	**115,946,644**	**24,227,208**
Weighted average number of ordinary shares in issue (thousands)	707,839	674,553
Effect of dilution:		
Share options	331	**-**
Weighted average number of ordinary shares adjusted for the effect of dilution (thousands)	**708,170**	**674,553**
Basic earnings per share	163.80	35.92
Diluted earnings per share	163.73	35.92

Refer to note 25 for information on the increase in the number of ordinary shares.

35 Reconciliation of Liabilities Arising from Financing Activities

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

	Liabilities from financing activities			
In thousands of Mongolian Tugriks	**Borrowed funds**	**Repo agreement**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January 2022	**1,509,446,027**	**221,912,121**	**14,001,667**	**1,745,359,816**
Cash transactions				
Cash inflows	1,201,130,206	424,211,523	-	**1,625,341,729**
Cash outflows	(970,908,033)	(447,033,190)	(5,758,791)	**(1,423,700,014)**
Interest paid	(46,270,532)	(5,822,717)	(1,481,221)	**(53,574,470)**
Non-cash transactions				
Repayment of borrowings in debt securities at FVTPL	(63,234,300)	-	-	**(63,234,300)**
New leases	-	-	7,628,839	**7,628,839**
Interest accrued	52,041,071	14,052,572	1,481,221	**67,574,864**
Adjustments from modification of the agreements	58,404	-	418,771	**477,175**
Foreign exchange adjustments	234,049,250	4,027,335	-	**238,076,585**
Liabilities from financing activities at 31 December 2022	**1,916,312,092**	**211,347,644**	**16,290,486**	**2,143,950,222**

	Liabilities from financing activities			
In thousands of Mongolian Tugriks	**Borrowed funds**	**Repo agreement**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January 2021	**1,202,264,649**	**20,088,596**	**10,611,448**	**1,232,964,693**
Cash transactions				
Cash inflows	1,205,497,008	562,558,030	-	**1,768,055,038**
Cash outflows	(854,325,119)	(367,560,485)	(5,205,254)	**(1,227,090,858)**
Interest paid	(56,683,035)	(205,732)	(1,560,592)	**(58,449,359)**
Non-cash transactions				
Repayment of borrowings in debt securities at FVTPL	(25,926,400)	-	-	**(25,926,400)**
New leases	-	-	8,595,473	**8,595,473**
Interest accrued	40,116,421	7,031,712	1,560,592	**48,708,726**
Adjustments from modification of the agreements	(64,756)	-	-	**(64,756)**
Foreign exchange adjustments	(1,432,742)	-	-	**(1,432,742)**
Liabilities from financing activities at 31 December 2021	**1,509,446,027**	**221,912,121**	**14,001,667**	**1,745,359,815**

36 Segment Analysis

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

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

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

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

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

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

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

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

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

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

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

36 Segment Analysis (continued)

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

	31 December 2022				
In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Loans and advances to customers	1,085,673,848	930,075,462	1,681,884,035	-	**3,697,633,345**
Customer accounts	1,581,658,356	1,146,662,149	3,014,977,36	-	**5,743,297,867**
Investments in debt securities	277,652,992	-	-	952,598,017	**1,230,251,009**
Investments in equity securities	22,103,523	337,321	-	72,647	**22,513,491**

In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Interest income	129,239,932	117,194,698	199,020,671	164,453,864	**609,909,165**
Interest expense	(21,730,573)	(13,999,865)	(125,094,622)	(63,513,322)	**(224,338,382)**
Net internal FTP income/expense	(46,016,951)	(35,714,448)	45,213,876	36,517,524	**-**
Net interest income	**61,492,408**	**67,480,385**	**119,139,924**	**137,458,066**	**385,570,783**
Credit loss allowance	(72,990,625)	3,187,115	23,834,022	-	**(45,969,488)**
Net interest income/(negative interest margin) after provision	**(11,498,217)**	**70,667,500**	**142,973,947**	**137,458,066**	**339,601,295**
Fee and commission income	12,770,871	31,761,145	39,062,984	536,978	**84,131,978**
Fee and commission expense	-	(1,367,330)	(28,614,936)	(9,978,919)	**(39,961,185)**
Net other non-interest income/expense	9,677,959	8,366,996	18,096,308	(50,769,456)	**(14,628,194)**
Administrative and other operating expenses	(26,691,610)	(31,945,253)	(105,125,670)	(11,583,377)	**(175,345,911)**
Profit before tax	**(15,740,997)**	**77,483,057**	**66,392,633**	**65,663,290**	**193,797,984**

36 Segment Analysis (continued)

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

Segment information for the reportable segments for the year ended 31 December 2021 is set out below:

	31 December 2021				
In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Loans and advances to customers	1,194,590,938	869,615,612	1,274,968,287	-	**3,339,174,837**
Customer accounts	1,231,819,362	1,058,668,533	3,173,055,495	-	**5,463,543,390**
Investments in debt securities	225,603,662	-	-	1,753,836,211	**1,979,439,874**
Investments in equity securities	18,013,329	395,571	-	63,815	**18,472,715**

	31 December 2021				
In thousands of Mongolian Tugriks	**Corporate**	**SME**	**Retail**	**Other**	**Total**
Interest income	149,137,192	96,996,356	171,085,606	137,558,448	**554,777,602**
Interest expense	(30,765,153)	(25,808,419)	(170,256,134)	(45,988,843)	**(272,818,549)**
Net internal FTP income/expense	(48,178,912)	(28,982,050)	159,928,377	(82,767,415)	**-**
Net interest income	**70,193,127**	**42,205,887**	**160,757,849**	**8,802,190**	**281,959,053**
Credit loss allowance	(21,929,426)	(14,137,657)	296,629	-	**(35,770,454)**
Net interest income/(negative interest margin) after provision	**48,263,701**	**28,068,230**	**161,054,478**	**8,802,190**	**246,188,599**
Fee and commission income	9,171,450	25,056,921	3,026,576	25,238,195	**62,493,142**
Fee and commission expense	-	(869,083)	(2,645,828)	(18,199,317)	**(21,714,228)**
Net other non-interest income/expense	6,018,725	6,667,440	3,218,376	(113,161,563)	**(97,257,022)**
Administrative and other operating expenses	(7,659,413)	(20,458,133)	(41,958,486)	(67,063,565)	**(137,139,597)**
Profit before tax	**55,794,463**	**38,465,375**	**122,695,116**	**(164,384,060)**	**52,570,894**

37 Significant Non-cash Investing and Financing Activities

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

In thousands of Mongolian Tugriks	**2022**	**2021**
Non-cash investing activities		
Proceeds from disposal of investment properties in the form of loan	(1,080,300)	(5,772,210)
Non-cash investing activities	**(1,080,300)**	**(5,772,210)**

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

In thousands of Mongolian Tugriks	**2022**	**2021**
Non-cash financing activities		
Repayment of borrowings in debt securities at FVTPL	63,234,300	25,926,400
Non-cash financing activities	**63,234,300**	**25,926,400**

38 Financial Risk Management

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

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

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

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

38 Financial Risk Management (continued)

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

38.1 Credit risk

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

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

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

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

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

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

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

Master scale credit risk grade	Corresponding internal ratings	Corresponding ratings of external international rating agencies (S&P)	Corresponding PD interval
Excellent	0	AAA to BB+	0,16% - 0,81%
Good	1	BB to B+	0,82% - 3,63%
Satisfactory	2	B, B-	3,64% - 7,25%
Special monitoring	3	CCC+ to CC-	7,26% - 99,9%
Default	4	C, D-I, D-II	100%

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

38 Financial Risk Management (continued)

38.1 Credit risk (Continued)

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

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

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

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

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

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

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

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

- Unlikely-to-pay: The borrower meets unlikeliness to pay criteria listed below:
  a. significant financial difficulty of the issuer or obligor;
  b. a breach of contract, such as a default or delinquency in interest or principal payments;
  c. the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
  d. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
  e. the disappearance of an active market for that financial asset because of financial difficulties;
- The borrower is more than 90 days past due on its contractual payments

38 Financial Risk Management (continued)

38.1 Credit risk (Continued)

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

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

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

The Bank considers a financial instrument to have experienced a SICR when one or more of the quantitative, qualitative or backstop criteria have been met, which are listed in the Note 3.

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

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

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

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

38 Financial Risk Management (continued)

38.1 Credit risk (Continued)

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

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

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

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

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

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

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of product and seniority of the claim. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

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

38 Financial Risk Management (continued)

38.1 Credit risk (Continued)

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

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

ECL measurement for due from other banks. The ECL measurement for due from other banks differs from other assets (loan, securities etc.). Current accounts have short lifetime which means expected loss is immaterial. For longer term placement, the Bank chooses highest possible credit rated banks with lower probability of default. For our bank, 65%-70% of due from other banks are placed in investment grade banks in average.

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

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

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

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

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

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

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

The criteria used for the Bank in defining due from other banks is same as general ECL method for loans.

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

38 Financial Risk Management (continued)

38.1 Credit risk (Continued)

Average Cumulative Issuer-Weighted Global Default rates be Alphanumeric Rating, 1983-2021[1]

Rating	Horizon 1 year	Rating	Horizon 1 year
Aaa	0.000%	Ba1	0.393%
Aa1	0.000%	Ba2	0.632%
Aa2	0.000%	Ba3	1.190%
Aa3	0.041%	B1	1.777%
A1	0.059%	B2	2.748%
A2	0.042%	B3	4.236%
A3	0.051%	Caa1	3.953%
Baa1	0.099%	Caa2	7.552%
Baa2	0.134%	Caa3	17.326%
Baa3	0.212%	Ca-C	30.038%

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

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

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

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

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

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

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

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

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

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

[1] *Source: Annual Default Study: Corporate default rate and recovery rates, 1920-2021.*
[2] *Source: Sovereign Default and Recovery Rates, 1983-2021.*

38 Financial Risk Management (continued)

38.1 Credit risk (Continued)

Issuer-Weighted Cumulative Sovereign Default Rates, 1983-2021[2]

Rating	1 year
Aaa	0.000%
Aa	0.000%
A	0.000%
Baa	0.000%
Ba	0.442%
B	2.431%
Caa-C	12.352%

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

For loss given default (LGD), the Bank uses “Moody’s data of Recovery rates for sovereign bond (1983-2021)” in measuring LGD for Sovereign sector. Due to insufficient internal and external data sources, the bank uses corporate segment historical LGD of loan portfolio for corporate or non-finance business sector debt securities.

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

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

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

The management have implemented a scorecard approach. This approach considers several macroeconomic indicators that are available and uses a duplicable process to apply forward-looking information. Using several reputable sources of information including Bank of Mongolia, Bloomberg and Trading Economics.

Using information obtained from the above sources, management performs a trend analysis and compares the historical information with the available forecasted data to determine whether the indicator represents a positive, negative, or stable trend. Each trend (positive, negative, stable) has a multiplier attached as follows:

- 0.6 for positive
- 1.1 for stable
- 1.6 for negative

The multipliers are based on historical economic evidence, which indicate that during a normal cycle of an economy, excluding recessions and excessive growth, during growth periods, losses within financial institutions experience a decrease of 30% while in a period of stagnation, losses within financial institutions experience an increase of 60%. Based on that, a multiplier for growth periods is given a multiplier of 0.6 (1-40%) and a multiplier for periods of stagnation are given a multiplier of 1.6 (1+60%). The median of those two numbers is 1.1, which is applied to the stable economic situation.

38 Financial Risk Management (continued)

38.1 Credit risk (Continued)

Weightings of the various macroeconomic indicators are determined using management's expert judgement and are multiplied by the applicable multiplier above based on the trend of the individual indicator. Management then determines the weightings of the 3 scenarios, being base, upside, and downside using expert judgment of the overall economic conditions and business environment within Mongolia. The Bank has considered specifically the post pandemic outlook for scenario analysis and provided noticeable events of the country's weighting assumptions.

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

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed at least once a year.

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

38.2 Market risk

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

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

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

38.3 Currency risk

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

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

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

38 Financial Risk Management (continued)

38.3 Currency Risk (Continued)

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

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

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

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

38 Financial Risk Management (continued)

38.3 Currency Risk (Continued)

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

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	798,739,886	143,544,872	63,356,714	136,762,618	1,142,404,090
Mandatory cash balances with the Bank of Mongolia	110,266,797	247,315,162	-	-	357,581,959
Due from other banks	1,954,810	1,475,505,273	9,542,401	79,960,896	1,566,963,380
Investments in debt securities	917,160,109	313,090,900	-	-	1,230,251,009
Loans and advances to customers	3,451,538,853	227,028,816	18,562,835	502,841	3,697,633,345
Other financial assets	26,367,271	1,197,605	91,116	121,073	27,777,065
Total monetary financial assets	**5,306,027,726**	**2,407,682,628**	**91,553,066**	**217,347,428**	**8,022,610,848**
Monetary financial liabilities					
Due to other banks	40,411,791	9,693,059	1,444,341	845,572	52,394,763
Customer accounts	3,422,863,051	2,038,233,479	79,220,034	202,981,303	5,743,297,867
- Current Accounts	1,578,690,458	985,660,916	47,332,381	146,381,200	2,758,064,955
- Demand Savings	210,674,967	173,810,898	13,338,849	28,011,256	425,835,970
- Term deposits	1,633,497,626	878,761,665	18,548,804	28,588,847	2,559,396,942
Other borrowed funds	480,966,640	1,419,768,033	12,034,996	3,542,423	1,916,312,092
REPO arrangements	169,906,728	41,440,916	-	-	211,347,644
Other financial liabilities	92,502,570	19,654,679	608,318	2,346,723	115,112,290
Total monetary financial liabilities	**4,206,650,780**	**3,528,790,166**	**93,307,689**	**209,716,021**	**8,038,464,656**
Derivatives*	(1,098,491,328)	1,517,378,329	1,504,298	15,754,810	**436,146,109**
Net balance sheet position*	**885,618**	**396,270,791**	**(250,325)**	**23,386,217**	**420,292,301**

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty.

*Please refer to Note 38.6 for details of the restatements.

38 Financial Risk Management (continued)

38.3 Currency Risk (Continued)

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2021. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currencies.

In thousands of Mongolian Tugriks	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	398,658,886	112,343,712	72,387,693	111,564,129	**694,954,420**
Mandatory cash balances with the Bank of Mongolia	103,049,223	174,294,299	-	-	**277,343,522**
Due from other banks	277,780	1,025,893,867	5,419,997	24,855,866	**1,056,447,510**
Investments in debt securities	1,730,103,753	249,336,121	-	-	**1,979,439,874**
Loans and advances to customers	3,051,668,849	281,385,043	5,497,209	623,736	**3,339,174,837**
Other financial assets	13,858,937	878,296	32,621	16,193	**14,786,047**
Total monetary financial assets	**5,297,617,428**	**1,844,131,338**	**83,337,520**	**137,059,924**	**7,362,146,210**
Monetary financial liabilities					
Due to other banks	4,345,002	2,860,080	6,735,488	2,841,966	**16,782,536**
Customer accounts	3,625,506,653	1,635,067,951	69,814,277	133,154,509	**5,463,543,390**
- Current Accounts	1,070,156,813	632,062,524	37,735,464	62,963,017	**1,802,917,818**
- Demand Savings	493,188,691	271,708,081	14,878,943	43,703,433	**823,479,148**
- Term deposits	2,062,161,149	731,297,346	17,199,870	26,488,059	**2,837,146,424**
Other borrowed funds	376,409,825	1,126,808,275	6,227,927	-	**1,509,446,027**
REPO arrangements	221,912,121	-	-	-	**221,912,121**
Other financial liabilities	56,128,093	2,812,000	771,387	2,061,518	**61,772,998**
Total monetary financial liabilities	**4,284,301,694**	**2,767,548,306**	**83,549,079**	**138,057,993**	**7,273,457,072**
Derivatives*	(994,816,480)	1,191,421,637	9,991,269	2,320,633	**208,917,059**
Net balance sheet position*	**18,499,254**	**268,004,669**	**9,779,710**	**1,322,564**	**297,606,197**

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

In thousands of Mongolian Tugriks	31 December 2022*	31 December 2021*
US Dollar strengthening by 15% (2021: strengthening by 15%)	59,440,619	40,200,700
US Dollar weakening by 15% (2021: weakening by 15%)	(59,440,619)	(40,200,700)
Euro strengthening by 15% (2021: strengthening by 15%)	(37,549)	1,466,957
Euro weakening by 15% (2021: weakening by 15%)	37,549	(1,466,957)
Other strengthening by 15% (2021: strengthening by 15%)	3,507,933	198,385
Other weakening by 15% (2021: weakening by 15%)	(3,507,933)	(198,385)

*Please refer to Note 38.6 for details of the restatements.

38 Financial Risk Management (continued)

38.4 Interest rate risk

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

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

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

At 31 December 2022, if interest rates at that date had been 10% higher/(lower) (2021: 10% higher/lower) with all other variables held constant, profit or loss for the year would have been MNT 42,029,230 thousands (2021: MNT 12,022,792 thousands) higher/(lower), mainly as a result of high net interest sensitivity gap and changes interest rates during 2022.

The Bank's exposure to interest rate risk at the end of the reporting period is not representative of the typical exposure during the year. For the average exposure during 2022, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 15,003,219 thousands higher/(lower) (2021: MNT 18,318,333 thousands higher/(lower)). The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2022						
Financial assets	2,919,044,942	387,143,467	1,233,198,802	2,736,831,511	1,205,051,725	**8,481,270,447**
Financial liabilities	834,574,091	993,344,526	2,688,319,305	1,793,902,650	1,728,324,084	**8,038,464,656**
Net interest sensitivity gap at 31 December 2022	**2,084,470,851**	**(606,201,059)**	**(1,455,120,503)**	**942,928,861**	**(523,272,359)**	**442,805,791**
At 31 December 2021						
Financial assets	3,048,499,566	327,436,262	278,677,822	3,034,273,141	882,176,478	**7,571,063,269**
Financial liabilities	3,247,133,163	1,331,391,289	1,329,493,839	1,329,854,205	35,584,576	**7,273,457,072**
Net interest sensitivity gap at 31 December 2021	**(198,633,597)**	**(1,003,955,027)**	**(1,050,816,017)**	**1,704,418,936**	**846,591,902**	**297,606,197**

38 Financial Risk Management (continued)

38.4 Interest rate risk (Continued)

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

	31 December 2022				31 December 2021			
In % p.a.	**MNT**	**USD**	**EUR**	**Other**	**MNT**	**USD**	**EUR**	**Other**
Assets								
Mandatory reserves at Bank of Mongolia	5.5%	0.0%	0.0%	0.0%	2.50%	-	-	-
Due from other banks	0.0%	1.2%	0.0%	0.0%	-	1.40%	-	-
Loans and advances to customers	13.2%	7.9%	8.6%	7.2%	12.30%	7.90%	6.20%	6.40%
Investments in debt securities	12.1%	6.5%	0.0%	0.0%	6.30%	6.20%	-	-
Liabilities								
Due to other banks	10.9%	0.0%	0.0%	0.0%	3.90%	-	2.50%	-
Customer accounts								
- Current/settlement accounts	0.0%	0.0%	0.0%	0.0%	-	-	-	-
- Demand deposits	0.0%	0.0%	0.0%	0.0%	1.40%	0.50%	0.30%	0.10%
- Time deposits	9.8%	2.5%	1.3%	1.7%	7.30%	2.20%	1.30%	1.60%
REPO agreements	6.1%	8.0%	0.0%	0.0%	6.10%	-	-	-
Other borrowed funds	7.6%	2.7%	5.6%	3.9%	6.90%	2.20%	2.10%	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Bank has limited exposure to equity price risk. Transactions in equity products are monitored and authorised by the Bank treasury. At 31 December 2022, if equity prices at that date had been 15% (2021: 15%) lower (higher) with all other variables held constant, profit and equity for the year would have been MNT 3,315,528 thousands (2021: MNT 2,689,178 thousands) lower (higher).

The Bank is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Bank's current year profit loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2021: no material impact).

Geographical risk concentrations. The Bank is not exposed to geographical concentration risk, as almost all of its financial assets and credit related commitments are placed in Mongolia as of 31 December 2022 and 31 December 2021. A major part of the financial liabilities for 31 December 2022 and 31 December 2021 relates to Mongolia. The management believes that the Bank's exposure to geographical concentration risk is mitigated due to relatively high customer diversification and industry diversification.

Other risk concentration. Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

38 Financial Risk Management (continued)

38.4 Interest rate risk (Continued)

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. At the individual basis, the Bank of Mongolia ("Central Bank") sets the following limits: i.e. The maximum amount of the overall credit exposures issued and other credit-equivalent assets to the individual and his/her related persons shall not exceed 20 percent of the capital of the Bank; ii. The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed the 5 percent of the capital for one related person to the Bank, and the aggregation of overall lending to the related persons shall not exceed 20 percent of the capital of the Bank.

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

38.5 Liquidity risk

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

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

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

	2022	2021
	36.29%	**41.30%**
Average during the period	36.40%	39.24%
Highest	41.30%	44.85%
Lowest	32.41%	34.75%

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

The table below shows the assets and liabilities as at 31 December 2022 and 31 December 2021 by their remaining contractual maturity.

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

38 Financial Risk Management (continued)

38.5 Liquidity risk (Continued)

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

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	1,142,404,090	-	-	-	-	1,142,404,090
Mandatory cash balances with the Bank of Mongolia	357,581,959	-	-	-	-	357,581,959
Due from other banks	496,301,297	17,666,653	367,619,425	705,577,121	-	1,587,164,496
Investments in debt securities	649,928,095	69,197,301	51,345,446	290,582,375	561,187,488	1,622,240,705
Investments in equity securities	22,513,491	-	-	-	-	22,513,491
Loans and advances to customers	262,512,703	474,848,723	855,769,304	1,942,840,163	1,523,701,208	5,059,672,101
Derivative financial instruments-asset	8,374,137	111,840	124,460,563	303,199,569	-	436,146,109
- inflows	37,432,781	21,706,244	235,225,696	382,752,525	-	677,117,246
- outflows	(29,058,644)	(21,594,404)	(110,765,133)	(79,552,956)	-	(240,971,137)
Other financial assets	26,033,454	160,839	1,553,352	29,420	-	27,777,065
Total Financial Assets	**2,965,649,226**	**561,985,356**	**1,400,748,090**	**3,242,228,648**	**2,084,888,696**	**10,255,500,016**
Liabilities						
Due to other banks	52,394,763	-	-	-	-	52,394,763
Customer accounts*	3,286,648,412	713,969,548	1,605,086,419	222,629,915	-	5,828,334,294
- Current accounts*	2,758,064,955	-	-	-	-	2,758,064,955
- Demand deposits*	425,835,970	-	-	-	-	425,835,970
- Term deposits*	102,747,487	713,969,548	1,605,086,419	222,629,915	-	2,644,433,369
Other borrowed funds	91,422,666	13,384,359	598,298,221	1,308,603,843	44,317,685	2,056,026,774
REPO arrangements	-	97,661,680	101,772,659	20,331,109	-	219,765,448
Other financial liabilities	111,977,417	1,490,164	1,576,278	68,431	-	115,112,290
Total Financial Liabilities*	**3,542,443,258**	**826,505,751**	**2,306,733,577**	**1,551,633,298**	**44,317,685**	**8,271,633,569**
Credit related commitments*	**951,456,052**	**-**	**-**	**-**	**-**	**951,456,052**
Guarantee and LC*	666,594,859	-	-	-	-	**666,594,859**
Credit Line undrawn*	284,861,193	-	-	-	-	**284,861,193**
Net Gap*	**(1,528,250,084)**	**(264,520,395)**	**(905,985,487)**	**1,690,595,350**	**2,040,571,011**	**1,032,410,395**
Accumulated Net Gap*	**(1,528,250,084)**	**(1,792,770,479)**	**(2,698,755,966)**	**(1,008,160,616)**	**1,032,410,395**	

*Please refer to Note 38.6 for details of the restatements.

38 Financial Risk Management (continued)

38.5 Liquidity risk (Continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2021 is as follows:

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with central bank (other than mandatory reserve)	694,954,420	-	-	-	-	**694,954,420**
Mandatory cash balances with the Bank of Mongolia	277,343,522	-	-	-	-	**277,343,522**
Due from other banks	184,047,153	14,300,325	-	888,345,714	-	**1,086,693,192**
Investments in debt securities	1,566,822,339	-	-	296,829,963	444,243,786	**2,307,896,088**
Investments in equity securities	18,472,715	-	-	-	-	**18,472,715**
Loans and advances to customers	455,799,235	456,893,494	419,523,402	2,090,693,824	1,099,786,578	**4,522,696,533**
Derivative financial instruments-asset	(104,167)	(7,431,353)	(6,424,684)	222,877,263	-	**208,917,059**
Other financial assets	12,812,854	179,622	1,793,121	450	-	**14,786,047**
Total Financial Assets	**3,210,148,071**	**463,942,088**	**414,891,839**	**3,498,747,214**	**1,544,030,364**	**9,131,759,576**
Liabilities						
Due to other banks	16,828,232	-	-	-	-	**16,828,232**
Customer accounts	3,053,982,078	1,319,718,370	964,045,347	111,425,056	-	**5,449,170,851**
- Current accounts	1,802,917,818	-	-	-	-	**1,802,917,818**
- Demand deposits	741,301,580	93,239	1,826	-	-	**741,396,645**
- Term deposits	509,762,679	1,319,625,131	964,043,521	111,425,056	-	**2,904,856,387**
Other borrowed funds	27,223,376	31,801,846	412,928,340	1,086,119,303	45,253,664	**1,603,326,529**
REPO arrangements	-	-	19,999,557	194,997,543	-	**214,997,100**
Other financial liabilities	61,205,602	243,358	323,572	465	-	**61,772,997**
Total Financial Liabilities	**3,159,239,288**	**1,351,763,574**	**1,397,296,816**	**1,392,542,367**	**45,253,664**	**7,346,095,709**
Credit related commitments*	828,260,373	-	-	-	-	**828,260,373**
Guarantee and LC*	606,684,335	-	-	-	-	**606,684,335**
Credit Line undrawn*	221,576,038	-	-	-	-	**221,576,038**
Net Gap*	**(777,351,590)**	**(887,821,486)**	**(982,404,977)**	**2,106,204,847**	**1,498,776,700**	**957,403,494**
Accumulated Net Gap*	**(777,351,590)**	**(1,665,173,076)**	**(2,647,578,053)**	**(541,373,206)**	**957,403,494**	

*Please refer to Note 38.6 for details of the restatements.

38 Financial Risk Management (continued)

38.5 Liquidity risk (Continued)

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

In thousands of Mongolian Tugriks	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with the Bank of Mongolia	1,142,404,090	-	-	-	-	**1,142,404,090**
Mandatory cash balances with the Bank of Mongolia	357,581,959	-	-	-	-	**357,581,959**
Due from other banks	496,299,115	17,514,992	361,694,333	691,454,940	-	**1,566,963,380**
Investments in debt securities	647,154,123	65,886,629	47,296,496	249,126,417	220,787,343	**1,230,251,009**
Investments in equity securities	22,513,491	-	-	-	-	**22,513,491**
Loans and advances to customers	218,684,574	303,469,167	698,194,057	1,493,021,166	984,264,381	**3,697,633,345**
Derivative financial instruments-asset	8,374,137	111,840	124,460,563	303,199,569	-	**436,146,109**
- inflows	37,432,781	21,706,244	235,225,696	382,752,526	-	**677,117,246**
- outflows	(29,058,644)	(21,594,404)	(110,765,133)	(79,552,957)	-	**(240,971,137)**
Other financial assets	26,033,454	160,839	1,553,352	29,419	-	**27,777,065**
Total Financial Assets	**2,919,044,942**	**387,143,468**	**1,233,198,802**	**2,736,831,511**	**1,205,051,725**	**8,481,270,447**
Liabilities						
Due to other banks	52,394,763	-	-	-	-	**52,394,763**
Customer accounts	578,729,637	882,970,205	2,011,233,725	575,206,564	1,695,157,736	**5,743,297,867**
- Current accounts	412,668,916	154,132,550	407,713,198	315,114,164	1,468,436,127	**2,758,064,955**
- Demand deposits	63,714,695	23,797,548	62,949,549	48,652,569	226,721,609	**425,835,970**
- Term deposits	102,346,026	705,040,107	1,540,570,978	211,439,831	-	**2,559,396,942**
Other borrowed funds	91,472,274	13,138,570	577,718,827	1,200,816,073	33,166,348	**1,916,312,092**
REPO arrangements	-	95,745,587	97,790,474	17,811,583	-	**211,347,644**
Other financial liabilities	111,977,417	1,490,164	1,576,278	68,430	-	**115,112,290**
Total Financial Liabilities	**834,574,091**	**993,344,526**	**2,688,319,304**	**1,793,902,650**	**1,728,324,084**	**8,038,464,656**
Liquidity gap arising from financial instruments	**2,084,470,851**	**(606,201,058)**	**(1,455,120,502)**	**942,928,861**	**(523,272,359)**	**442,805,793**
Accumulated Net Gap	**2,084,470,851**	**1,478,269,793**	**23,149,291**	**966,078,152**	**442,805,793**	

38 Financial Risk Management (continued)

38.5 Liquidity risk (Continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2021:

In thousands of Mongolian Tugriks	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with the Bank of Mongolia	694,954,420	-	-	-	-	**694,954,420**
Mandatory cash balances with the Bank of Mongolia	277,343,522	-	-	-	-	**277,343,522**
Due from other banks	184,031,323	14,299,749	-	858,116,438	-	**1,056,447,510**
Investments in debt securities	1,563,001,736	-	-	247,159,957	169,278,181	**1,979,439,874**
Investments in equity securities	18,472,715	-	-	-	-	**18,472,715**
Loans and advances to customers	316,459,876	320,388,245	283,309,386	1,706,119,033	712,898,297	**3,339,174,837**
Derivative financial instruments-asset	(104,167)	(7,431,353)	(6,424,685)	222,877,264	-	**208,917,059**
Other financial assets	12,812,855	179,621	1,793,121	450	-	**14,786,047**
Total Financial Assets	**3,066,972,280**	**327,436,262**	**278,677,822**	**3,034,273,142**	**882,176,478**	**7,589,535,984**
Liabilities						
Due to other banks	16,782,536	-	-	-	-	**16,782,536**
Customer accounts						
- Current accounts	1,802,917,818	-	-	-	-	**1,802,917,818**
- Demand deposits	823,385,220	92,223	1,705	-	-	**823,479,148**
- Term deposits	515,667,293	1,299,414,762	920,529,069	101,535,300	-	**2,837,146,424**
Other borrowed funds	27,174,693	31,640,946	387,250,923	1,027,794,890	35,584,575	**1,509,446,027**
REPO arrangements	-	-	21,388,569	200,523,552	-	**221,912,121**
Other financial liabilities	61,205,602	243,358	323,572	466	-	**61,772,998**
Total Financial Liabilities	**3,247,133,162**	**1,331,391,289**	**1,329,493,838**	**1,329,854,208**	**35,584,575**	**7,273,457,072**
Liquidity gap arising from financial instruments	**(180,160,882)**	**(1,003,955,027)**	**(1,050,816,016)**	**1,704,418,934**	**846,591,903**	**316,078,912**
Accumulated Net Gap	**(180,160,882)**	**(1,184,115,909)**	**(2,234,931,925)**	**(530,512,991)**	**316,078,912**	

38 Financial Risk Management (continued)

38.5 Liquidity risk (Continued)

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

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

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

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

***Effect of IBOR reform*.** Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Many IBOR rates stopped being published on 31 December 2021, while certain USD LIBOR rates would stop being published by 30 June 2023.

The table below discloses amounts of non-derivative financial liabilities at 31 December 2022 that would be transitioned to alternative interest rate benchmarks. More specifically the table provides financial instrument exposures that currently mature after the relevant LIBOR cessation date that are yet to transition to Risk-free rate*:*

In thousands of MNT	**USD LIBOR**	**EUR LIBOR**	**Total**
NON-DERIVATIVE FINANCIAL LIABILITIES			
Other borrowed funds	92,926,157	5,786,545	**98,712,702**
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**92,926,157**	**5,786,545**	**98,712,702**

The Bank is exposed to a risk that the liquidity of the above financial instruments would start to decrease, as the volume of operations with traditional IBOR-based financial instruments is shrinking.

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

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

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

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

38 Financial Risk Management (continued)

38.6 Restatement of previously issued financial statements

The original financial statements for the year ended 31 December 2022, originally authorised on 30 March 2023, are replaced by these revised financial statements because the Bank identified and corrected the following misstatements in Note 38, *Financial Risk Management*:

- a clerical and mathematical error in the allocation of current accounts, demand deposits and credit related commitments to respective time buckets in the undiscounted contractual maturity analysis of financial instruments presented in Note 38.5 Liquidity Risk; and
- a mathematical error in the treatment of derivatives in the calculation of the net balance sheet position of the exposure to foreign currency exchange rate risk and in the related currency risk sensitivity analysis presented in Note 38.3 Currency Risk.

39 Management of Capital

The Bank's capital management has the following objectives: to observe the capital requirements established by the Central Bank, namely the requirements of the deposit insurance system; to maintain the Bank's operations as a going concern and to maintain its capital base at the level necessary to ensure a 13% (2021:12%) capital adequacy ratio in accordance with the requirements set by the Bank of Mongolia. The control over compliance with the capital adequacy ratio set by the Bank of Mongolia is exercised daily on the basis of estimated and actual data as well as on the basis of monthly reports that contain corresponding calculations that are controlled by the Chairman of the Board of Directors and Chief Accountant of the Bank.

The Bank is keen on maintaining the necessary capital level in order to preserve the confidence of creditors, investors and the market as a whole as well as to develop the future activity of the Bank. In accordance with the current capital requirements set by the Central Bank, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level.

The table below shows the regulatory capital structure prepared in accordance with the requirements of the Bank of Mongolia legislation based on IFRS financial statements:

	31 December 2022	**31 December 2021**
Core capital ratio	17.91%	15.04%
Risk weighted capital ratio	17.91%	15.43%
Tier I capital		
Ordinary shares	202,164,327	168,960,148
Share premium	301,481,120	169,486,044
Retained earnings	283,420,821	242,436,053
Other components of equity	66,997,372	54,468,576
Treasury stock	-	(322,000)
Total Tier I Capital	**854,063,640**	**635,028,821**
Tier II capital		
Preferred shares	-	25,778,900
Treasury stock/ Preferred shares	-	(9,390,800)
Total Tier II Capital	**-**	**16,388,100**
Total capital/capital base	**854,063,640**	**651,416,921**

39 Management of Capital (continued)

The equity capital of the Bank amounted to MNT 861,905,763 thousand as of 31 December 2022 (31 December 2021: MNT 658,662,023 thousand). The Bank have complied with all externally imposed capital requirements as of 31 December 2022 and at the end of 2021.

Statutory Core Capital Adequacy Ratio and Risk Weighted Capital Adequacy Ratio are different from those above as they are calculated based on the Bank of Mongolia accounting manual. The Bank of Mongolia has the right to request the Bank to provide additional provision for statutory accounting purposes.

40 Contingencies and Commitments

Legal proceedings. In the normal course of business, there are cases in which the Bank receives a claim against it. The Bank has formal controls and policies for managing legal claims. If management decides that there is material impact to the Bank, based on its own estimates and internal professional advice; the Bank makes adjustments to account for any adverse effects which claims may have on its financial statements. As of 31 December 2022, MNT 179,771 thousand (31 December 2021: MNT 47,274 thousand) provision was booked due to legal claims.

Compliance issue of Banking law. Even though the Bank has successfully launched its initial public offering (IPO) on the Mongolian Stock Exchange, fulfilling the requirement of law to reduce maximum single ownership concentration to 20%, by 31 December 2023 has proven to be challenging not only for the Bank, but also for all other systemically important banks in the market. In response to this, the Bank of Mongolia established a working group and submitted a draft law to the Government of Mongolia proposing an extension of the specified deadline until the end of 2026. It is expected that the amendments to the law will be discussed during the ongoing parliamentary spring session commenced on 15 March 2024.

The management of the Bank takes all possible actions working together with the regulator, working group for the amendments of the law and the banking association and Bank firmly believes that the parliament will pass the extension of the deadline to the Banking Law from 2023 to 2026 given the very systemic nature of the issue.

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

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

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

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

40 Contingencies and Commitments (continued)

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

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

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

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

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

In thousands of Mongolian Tugriks	**31 December 2022**	**31 December 2021**
Financial guarantees issued	66,863,233	45,866,650
Performance guarantees issued	355,360,186	395,440,322
Letters of credit	244,371,441	165,377,364
Undrawn credit lines	284,861,192	221,576,038
Total credit related commitments	**951,456,052**	**828,260,374**
Less: Expected credit loss allowance for impairment of credit related commitments	(1,447,410)	(938,074)
Total credit related commitments	**950,008,642**	**827,322,300**

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

Movements in the expected credit loss allowance for credit related commitments to legal entities and individuals are as follows at 31 December 2022:

In thousands of Mongolian Tugriks	**Financial guarantees issued**	**Performance guarantees issued**	**Letters of credit**	**Total**
Expected credit loss allowance at 1 January 2022	**248,091**	**650,374**	**39,609**	**938,074**
Recovery of for impairment during the year	117,134	388,815	3,386	**509,335**
Expected credit loss allowance at 31 December 2022	**365,225**	**1,039,189**	**42,995**	**1,447,409**

40 Contingencies and Commitments (continued)

Movements in the expected credit loss allowance for credit related commitments to legal entities and individuals during 2021 are as follows:

In thousands of Mongolian Tugriks	Financial guarantees issued	Performance guarantees issued	Letters of credit	Total
Expected credit loss allowance at 1 January 2021	**480,689**	**2,224,480**	**191,838**	**2,897,007**
Recovery of for impairment during the year	(232,598)	(1,574,106)	(152,229)	**(1,958,933)**
Expected credit loss allowance at 31 December 2021	**248,091**	**650,374**	**39,609**	**938,074**

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

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

As of 31 December 2022, management concluded that provision for credit related commitments in the amount of MNT 1,447,410 thousands (31 December 2021: MNT 938,074 thousands) is necessary, based on all available information using its best estimate of losses incurred and the probability of their occurrence after analysing financial conditions of the Bank's customers.

Assets pledged and restricted. Mandatory cash balances with the Bank of Mongolia in the amount of MNT 357,581,959 thousands as of 31 December 2022 (31 December 2021: MNT 277,343,522) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations (Note 8).

Treasury bills of the Bank of Mongolia with nominal amount of MNT 205,728,000 thousands (31 December 2021: MNT 223,554,000 thousands) and MNT 42,800,000 thousands with maturity of 28 days were collateralised by Repo arrangement (Note 23) and a borrowing obtained under the project on gold production 2 (Note 22), respectively.

Government bonds with nominal amount of MNT 180,152,580 thousands (31 December 2021: nil) were collateralised to obtain borrowings from foreign bank. Please see Note 22.

Corporate bonds classified at FVTOCI with nominal amount of MNT 38,372,844 thousands (31 December 2021: nil) were collateralised by Repo arrangement. Please see Note 23.

USD 300,000 thousands of those borrowings are collateralized by the Bank's current account at the lending banks and USD 25,000 thousands of borrowings are collateralized by Government securities at FVTOCI. Please refer to the Note 10.

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.

41 Derivative Financial Instruments

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

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

41 Derivative Financial Instruments (continued)

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

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- Financial assets at fair value through profit or loss	457,415,688	218,372,256
- Financial liabilities at fair value through profit or loss	(21,269,579)	(9,455,197)
Foreign exchange forwards and swaps, net fair value	**436,146,109**	**208,917,059**

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	654,520,799	151,660,992
- USD payable on settlement (-)	(22,613,278)	(23,830,079)
- MNT receivable on settlement (+)	2,134,889	232,747,374
- MNT payable on settlement (-)	(215,163,795)	(163,973,130)
- Other currencies receivable on settlement (+)	20,478,438	23,820,472
- Other currencies receivable on settlement (-)	(3,210,944)	(11,508,570)
Net fair value of foreign exchange forwards and swaps	**436,146,109**	**208,917,059**

Financial assets of MNT 436,115,135 thousands as at 31 December 2022 (31 December 2021: MNT 209,029,124 thousands) relates to a long-term cross currency interest rate exchange contract with the Bank of Mongolia. The total nominal amount of those long-term cross currency interest exchange is the MNT 1,134,331,616 thousands as of 31 December 2022 with original maturity range of 12 months to 96 months (31 December 2021: MNT 1,028,689,759 thousands with original maturity range of 12 months to 96 months).

As of 31 December 2022, gains from financial derivative resulted to MNT 226,288,613 thousands (31 December 2021: MNT 3,136,525 thousands), foreign exchange gain of MNT 179,222,000 thousands (31 December 2021: gain of MNT 213,000 thousands), net interest expense of MNT 12,340,965 thousands (31 December 2021: MNT 21,838,590 thousands). Remaining amount of gains is related to short-term swaps.

42 Fair Value Disclosures

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

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

42 Fair Value Disclosures (continued)

(a) Recurring fair value measurements

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

	31 December 2022				31 December 2021			
In thousands of Mongolian Tugriks	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Investments in debt securities at FVTPL	621,920	-	221,722,770	**222,344,690**	2,197,175	-	163,757,158	**165,954,333**
Investments in debt securities at FVTOCI	261,107,415	-	742,100,282	**1,003,207,697**	245,799,055	-	1,563,001,736	1,808,800,791
Investments in equity securities at FVTPL	22,103,523	-	-	**22,103,523**	17,927,851	-	-	**17,927,851**
Investments in equity securities at FVTOCI	-	-	409,968	**409,968**	85,478	-	459,386	**544,864**
Loan and advances to customers at FVTPL	-	-	437,700,348	**437,700,348**	-	-	389,202,975	**389,202,975**
Repossessed financial assets	-	-	6,146,252	**6,146,252**	-	-	59,418,813	**59,418,813**
Derivative financial instruments-asset	-	436,146,109	-	**436,146,109**	-	208,917,059	-	**208,917,059**
Precious metals	160,633	-	-	**160,633**	6,400,182	-	-	**6,400,182**
Non-financial assets								
Premises	-	-	102,710,381	**102,710,381**	-	-	102,159,805	**102,159,805**
Investment properties	-	-	10,276,475	**10,276,475**	-	-	17,427,586	**17,427,586**
Total assets recurring fair value measurements	**283,993,491**	**436,146,109**	**1,521,066,476**	**2,241,206,076**	**272,409,741**	**208,917,059**	**2,295,427,459**	**2,776,754,259**

42 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2022 and 31 December 2021:

In thousands of Mongolian Tugriks	**2022** Fair value	**2021** Fair value	**Valuation technique**	**Inputs used**
Other financial assets				
Financial derivatives	436,146,109	208,917,059	Interest rate parity theory	MNT discount rate based on risk-free rate, country risk premium and currency risk premium, US discount rate based on treasury yield, US leg based on US SOFR, constant and Z spread, MNT leg based on policy rate, or as provided in the corresponding swap agreement.
Total recurring fair value measurements at level 2	**436,146,109**	**208,917,059**		

There were changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2022. Changes in methodology involve different calculation method of MNT and USD leg payments using US Short-term rate to reflect changes in the market more accurately.

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2022.

Financial assets

Equity securities, which are classified as Level 1 for fair value measurement purposes, mostly relate to the Bank's investment in a joint stock companies established in Mongolia in the amount of MNT 22,103,523 thousands (31 December 2021: MNT 17,927,851 thousands of investment securities at fair value through profit or loss) are disclosed in Note 11. Companies are listed in the Mongolian Stock exchange and Foreign Stock exchange.

Precious metal, which are mostly consist of the gold bar are classified at Level 1 for fair value measurement purposes in the amount of MNT 160,633 thousands (31 December 2021: MNT 6,400,182 thousands) which was valued at publicly available price announced by the Bank of Mongolia.

Derivative financial instruments, which are classified as level 2 for fair value measurement purposes, in amount of MNT 436,146,109 thousands (31 December 2021: MNT 208,917,059 thousands) are related to unrealized gain from long-term and short-term swaps and are classified as financial assets at FVTPL.

Investments in debt securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 963,823,052 thousand (31 December 2021: MNT 1,726,758,894 thousands, which were classified as level 3) are related to treasury bills of Bank of Mongolia, MIK Senior and Junior bonds, and SFC Senior and Junior bonds.

Investments in equity securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 409,968 thousands (31 December 2021: MNT 459,386, which were classified as level 3) are related to unquoted financial investments in corporate. Management applied valuation technique to determine the fair value as at 31 December 2022, which is based on price per net asset of similar company, which is listed in Mongolian Stock Exchange.

If the market price of debt and equity securities, classified as level 3 for fair value measurement purposes, would increase/(decrease) by 10%, the fair value of these investment would increase/(decrease) by MNT 96,382,305 thousands and 409.97 thousands (31 December 2021: MNT 172,675,889 thousands and MNT 45,939) respectively.

42 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

Loans at FVTPL, which are classified at level 3 for fair value measurement purposes, in the amount of MNT 437,700,348 thousands (31 December 2021: MNT 389,202,975 thousands, which were classified as level 3) are related to Mortgage portfolio of loans, SME loan portfolio financed by long term REPO financing by the Bank of Mongolia and corporate loan classified at FVTPL which is a modified instrument that had been previously classified as a derivative financial instrument. The management determined fair value by discounting the future cash inflows using its market interest rate. As those FVTPL loans were under special government programs, market rate was defined as its own interest rate.

If the interest rate would increase/(decrease) by 10%, the fair value of those loans would (decrease)/increase by MNT 43,770,035 thousands (2021: MNT 38,920,298 thousands).

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

The methods and significant assumptions applied in determining the fair value of premises were the income method and the valuation was based principally on discounted cash flows based on reliable estimates of future cash flows from the expected market rental income streams from similar properties. The method considers net income generated by comparable property.

Non-financial assets at 31 December 2022:

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

Non-financial assets at 31 December 2021:

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (price per sq. m)**	**Reasonable change**	**Sensitivity of fair value measurement**
Assets at fair value Non-financial assets						
Premises	102,159,805	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	2,000-5,400	10%	10,215,981
Investment properties	17,427,586	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	1,776-3,000	10%	1,742,759
Total recurring fair value measurements at level 3	**119,587,391**					**11,958,740**

42 Fair Value Disclosures (continued)

(b) Non-recurring fair value measurements

The Bank has written down its non-current assets held for sale to fair value less costs to sell. The fair value belongs to level 3 measurements in the fair value hierarchy. The valuation technique and inputs used in the fair value measurement on 31 December 2022.

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

The valuation technique and inputs used in the fair value measurement at 31 December 2021.

In thousands of Mongolian Tugriks	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (price per sq. m)**	**Sensitivity of fair value measurement**
Non-current assets held for sale	74,084,536	Market comparison method	Market rental prices with appropriate adjustments, discounts/haircuts	334.4-7,178.51	7,408,454

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

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

42 Fair Value Disclosures (continued)

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

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

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with the Bank of Mongolia	**101,014,387**	**1,041,389,704**	-	**1,142,404,090**
Cash on hand	101,014,387		-	101,014,387
Cash and balances with the Bank of Mongolia	-	1,041,389,704	-	1,041,389,704
Mandatory cash balances with the Bank of Mongolia	-	**357,581,959**	-	**357,581,959**
Due from other banks	-	**1,566,963,380**	-	**1,566,963,380**
Correspondent accounts with other banks	-	**405,662,564**	**-**	**405,662,564**
Foreign	-	**387,577,033**	**-**	**387,577,033**
Domestic	-	18,085,531	-	18,085,531
Short term placements with other banks	-	80,193,710	-	80,193,710
Domestic	-	40,384,037	-	40,384,037
Foreign	-	39,809,673	-	39,809,673
Placements with other banks with original maturities of more than three months	-	1,081,107,105	-	1,081,107,105
Loans and advances to customers	-	-	**3,361,520,531**	**3,259,932,997**
Corporate loans	-		1,101,436,336	1,059,763,701
Loans to small and medium business	-		955,414,431	912,814,523
Consumer loans to individuals	-		866,496,055	833,565,900
Mortgage loans to individuals	-		438,173,709	453,788,873
Debt securities at AC	-	**4,698,623**	-	**4,698,623**
Other financial assets	-	**27,616,432**	-	**27,616,432**
Total financial assets carried at amortised cost	**101,014,387**	**2,998,250,098**	**3,361,520,531**	**6,359,197,481**

42 Fair Value Disclosures (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value as of 31 December 2021 are as follows:

In thousands of Mongolian Tugriks	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Financial assets				
Cash and balances with the Bank of Mongolia	**115,856,223**	**579,098,197**	-	**694,954,420**
Cash on hand	115,856,223	-	-	115,856,223
Cash and balances with the Bank of Mongolia	-	579,098,197	-	579,098,197
Mandatory cash balances with the Bank of Mongolia	-	**277,343,522**	-	**277,343,522**
Due from other banks	-	**1,056,447,510**	-	**1,056,447,510**
Correspondent accounts with other banks	-	148,573,128	-	148,573,128
Foreign	-	122,837,341	-	122,837,341
Domestic	-	25,735,787	-	25,735,787
Short term placements with other banks	-	28,196,604	-	28,196,604
Domestic	-	18,208,629	-	18,208,629
Foreign	-	9,987,975	-	9,987,975
Placements with other banks with original maturities of more than three months	-	879,677,778	-	879,677,778
Loans and advances to customers	-	-	**3,076,801,353**	**2,949,971,862**
Corporate loans	-	-	1,248,406,063	1,193,443,603
Loans to small and medium business	-	-	830,056,329	785,792,036
Consumer loans to individuals	-	-	666,648,782	635,148,930
Mortgage loans to individuals	-	-	331,690,179	335,587,293
Debt securities at AC	-	**4,684,750**	-	**4,684,750**
Other financial assets	-	**8,385,865**	-	**8,385,865**
Total financial assets carried at amortised cost	**115,856,223**	**1,925,959,844**	**3,076,801,353**	**4,991,787,929**

42 Fair Value Disclosures (continued)

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

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	-	**52,394,763**	**-**	**52,394,763**
Short-term placements of other banks	-	52,394,763	-	52,394,763
Long-term placement of other banks	-	-	-	-
REPO Arrangements	-	**211,347,644**	**-**	**211,347,644**
Sale and repurchase agreements with other banks	-	211,347,644	-	211,347,644
Customer Accounts				-
State and public organisations	-	**520,090,000**	**-**	**522,698,005**
- Current/settlement accounts	-	481,916,068	-	481,916,068
- Demand deposits	-	3,046,468	-	3,046,468
- Term deposits	-	35,127,464	-	37,735,469
Legal entities	-	**2,047,304,222**	**-**	**2,111,440,787**
- Current/settlement accounts	-	1,653,140,375	-	1,653,140,375
- Demand deposits	-	5,636,883	-	5,636,883
- Term deposits	-	388,526,965	-	452,663,530
Individuals	-	**3,035,877,103**	**-**	**3,048,396,232**
- Current/settlement accounts	-	584,816,587	-	584,816,587
- Demand deposits	-	417,143,204	-	417,143,204
- Term deposits	-	2,033,917,311	-	2,046,436,441
Other	-	**59,944,579**	**-**	**60,762,843**
- Current/settlement accounts	-	38,191,925	-	38,191,925
- Demand deposits	-	9,416	-	9,416
- Term deposits	-	21,743,238	-	22,561,502
Other borrowed funds	-	**1,916,312,092**	**-**	**1,916,312,092**
Provision for credit related commitments	-	**1,447,410**	**-**	**1,447,410**
Other financial liabilities	-	**113,664,880**	**-**	**113,664,880**
Total financial liabilities carried at amortised cost	**-**	**7,958,382,693**	**-**	**8,038,464,657**

42 Fair Value Disclosures (continued)

Fair value analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value as of 31 December 2021 are as follows:

In thousands of Mongolian Tugriks	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	-	**16,782,536**	**-**	**16,782,536**
Short-term placements of other banks	-	16,782,536	-	16,782,536
Long-term placement of other banks	-	-	-	-
REPO Arrangements	-	**221,912,121**	**-**	**221,912,121**
Sale and repurchase agreements with other banks	-	221,912,121	-	221,912,121
Customer Accounts				
State and public organisations	-	**268,912,432**	**-**	**269,204,943**
- Current/settlement accounts	-	59,415,348	-	59,415,348
- Demand deposits	-	185,260,970	-	185,260,970
- Term deposits	-	24,236,115	-	24,528,625
Legal entities	-	**1,833,394,234**	**-**	**1,886,308,143**
- Current/settlement accounts	-	1,282,428,342	-	1,282,428,342
- Demand deposits	-	101,671,072	-	101,671,072
- Term deposits	-	449,294,820	-	502,208,729
Individuals	-	**3,175,828,506**	**-**	**3,226,617,157**
- Current/settlement accounts	-	411,897,832	-	411,897,832
- Demand deposits	-	536,054,590	-	536,054,590
- Term deposits	-	2,227,876,083	-	2,278,664,735
Other	-	**80,473,909**	**-**	**81,413,147**
- Current/settlement accounts	-	49,176,296	-	49,176,296
- Demand deposits	-	492,516	-	492,516
- Term deposits	-	30,805,097	-	31,744,335
Other borrowed funds	-	**1,509,446,027**	**-**	**1,509,446,027**
Provision for credit related commit-ments	-	**938,074**	**-**	**938,074**
Other financial liabilities	-	**60,834,924**	**-**	**60,834,924**
Total financial liabilities carried at amortised cost	**-**	**7,168,522,763**	**-**	**7,273,457,072**

43 Presentation of Financial Instruments by Measurement Category

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

In thousands of Mongolian Tugriks	Amortised cost	FVTPL	FVTOCI (with recycling)	FVTOCI (no recycling)	Total
Financial assets					
Cash and balances with the Bank of Mongolia	**1,142,404,090**	**-**	**-**	**-**	**1,142,404,090**
Cash on hand	101,014,387	-	-	-	101,014,387
Cash and balances with the Bank of Mongolia	1,041,389,704	-	-	-	1,041,389,704
Mandatory cash balances with the Bank of Mongolia	**357,581,959**	**-**	**-**	**-**	**357,581,959**
Investments in debt securities	**4,698,622**	**222,344,690**	**1,003,207,697**	**-**	**1,230,251,009**
Investments in equity securities	**-**	**22,103,523**	**-**	**409,968**	**22,513,491**
Due from other banks	**1,566,963,380**	**-**	**-**	**-**	**1,566,963,380**
Correspondent accounts with other banks:					
Foreign	387,577,033	-	-	-	387,577,033
Domestic	18,085,531	-	-	-	18,085,531
Short term placements with other banks					
Domestic	40,384,037	-	-	-	40,384,037
Foreign	39,809,673	-	-	-	39,809,673
Placements with other banks with original maturities of more than three months	1,081,107,105	-	-	-	1,081,107,105
Loans and advances to customers	**3,259,932,997**	**437,700,348**	**-**	**-**	**3,697,633,345**
Corporate loans	1,059,763,701	-	-	-	1,059,763,701
Loans to small and medium business	912,814,523	-	-	-	912,814,523
Consumer loans to individuals	833,565,900	-	-	-	833,565,900
Mortgage loans to individuals	453,788,873	-	-	-	453,788,873
Corporate loan classified FVTPL	-	25,910,146	-	-	25,910,146
SME loan classified FVTPL	-	17,260,939	-	-	17,260,939
Mortgage loans to be sold to MIK with recourse	-	394,529,262	-	-	394,529,262
Derivative financial instruments-asset	**-**	**436,146,109**	**-**	**-**	**436,146,109**
Repossessed financial assets	**-**	**6,146,252**	**-**	**-**	**6,146,252**
Other financial assets	**27,616,432**	**160,633**	**-**	**-**	**27,777,065**
Precious metals	-	160,633	-	-	160,633
Receivable from companies	5,161,812	-	-	-	5,161,812
Receivable from individuals	2,334,578	-	-	-	2,334,578
Receivables on cash and settlements services	22,199,583	-	-	-	22,199,583
Other financial assets	2,649,865	-	-	-	2,649,865
Less: Provision for impairment	(4,729,407)	-	-	-	(4,729,407)
Total Financial Assets	**6,359,197,480**	**1,124,601,554**	**1,003,207,697**	**409,968**	**8,487,416,699**

43 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2021:

In thousands of Mongolian Tugriks	Amortised cost	FVTPL	FVTOCI (with recycling)	FVTOCI (no recycling)	Total
Financial assets					
Cash and balances with the Bank of Mongolia	**694,954,420**	**-**	**-**	**-**	**694,954,420**
Cash on hand	115,856,223	-	-	-	115,856,223
Cash and balances with the Bank of Mongolia	579,098,197	-	-	-	579,098,197
Mandatory cash balances with the Bank of Mongolia	**277,343,522**	**-**	**-**	**-**	**277,343,522**
Investments in debt securities	**4,684,750**	**165,954,333**	**1,808,800,791**		**1,979,439,874**
Investments in equity securities	-	**17,927,851**	**-**	**544,864**	**18,472,715**
Due from other banks	**1,056,447,510**	**-**	**-**	**-**	**1,056,447,510**
Correspondent accounts with other banks:					
Foreign	122,837,341	-	-	-	122,837,341
Domestic	25,735,787	-	-	-	25,735,787
Short term placements with other banks					
Domestic	9,987,975	-	-	-	9,987,975
Foreign	18,208,629	-	-	-	18,208,629
Placements with other banks with original maturities of more than three months	879,677,778	-	-	-	879,677,778
Loans and advances to customers	**2,949,971,862**	**389,202,975**	**-**	**-**	**3,339,174,837**
Corporate loans	1,193,443,603	-	-	-	1,193,443,603
Loans to small and medium business	785,792,036	-	-	-	785,792,036
Consumer loans to individuals	635,148,930	-	-	-	635,148,930
Mortgage loans to individuals	335,587,293	-	-	-	335,587,293
Corporate loan classified FVTPL	-	1,147,335	-	-	1,147,335
SME loan classified FVTPL	-	83,823,576	-	-	83,823,576
Mortgage loans to be sold to MIK with recourse	-	304,232,064	-	-	304,232,064
Derivative financial instruments-asset	**-**	**208,917,059**	**-**	**-**	**208,917,059**
Repossessed financial assets	**-**	**59,418,813**	**-**	**-**	**59,418,813**
Other financial assets	**8,385,865**	**6,400,182**	**-**	**-**	**14,786,047**
Precious metals	-	6,400,182	**-**	**-**	6,400,182
Receivable from companies	5,864,935	-	-	-	5,864,935
Receivable from individuals	2,211,717	-	-	-	2,211,717
Receivables on cash and settlements services	1,513,068	-	-	-	1,513,068
Other financial assets	3,174,862	-	-	-	3,174,862
Less: Provision for impairment	(4,378,717)	-	-	-	(4,378,717)
Total Financial Assets	**4,991,787,929**	**847,821,213**	**1,808,800,791**	**544,864**	**7,648,954,797**

As of 31 December 2022, and 31 December 2021, all of the Bank's financial liabilities were carried at AC.

44 Related Party Transactions

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

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

Related party categories are as follows:

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

For information on the Bank's immediate and ultimate parent company, as well as ultimate controlling party as of 31 December 2022 and 31 December 2021, refer to Note 1.

44 Related Party Transactions (continued)

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

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

On 31 December 2021, the outstanding balances with the Bank's related parties were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Entities under common control	Total
Net amount of loans and advances to customers (effective interest rate 0% - 21.6%)	2,933,750	8,051,638	6,292,249	**17,277,637**
Prepaid expenses	-	2,640,000	-	**2,640,000**
Customer accounts (contractual interest rate 0% - 13%)	3,545,762	9,171,115	41,929,778	**54,646,655**

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

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

44 Related Party Transactions (continued)

Movements in the loans and advances to the Bank's related party at 31 December 2021 were as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Entities under common control	Total
Contractual interest rate	**6% - 20.5%**	**0% - 3%**	**3% - 21.6%**	
Loans to customers				
Loans to customers as at 1 January 2021	**1,676,747**	**24,335,791**	**33,397,548**	**59,410,086**
Loans to customers issued during the year	3,170,112	8,800,000	3,696,562	**15,666,674**
Loans to customers repaid during the year	(1,923,895)	(24,335,791)	(30,546,278)	**(56,805,964)**
Accrued interest as at 31 December 2021	16,888	1,254,661	3,905	**1,275,454**
Less: Credit loss allowance	(6,102)	(94,839)	(46,583)	**(147,524)**
Losses on initial recognition of loans at rates below market	-	(1,908,184)	(212,905)	**(2,121,089)**
Loans to customers as at 31 December 2021	**2,933,750**	**8,051,638**	**6,292,249**	**17,277,637**

44 Related Party Transactions (continued)

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

As of 31 December 2022, the customer accounts balances and transactions with the Bank's related parties are as follows:

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

The customer account balances at the year-end and transactions with the Bank's related parties for 2021 are as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Entities under common control	Total
Contractual interest rate	**0% - 13%**	**0%**	**0% - 12%**	
Customer accounts				
Customer accounts as at 01 January 2021	**3,004,981**	**11,427,654**	**177,247,265**	**191,679,900**
Customer accounts received during the year	33,111,087	320,973,770	3,123,883,098	**3,477,967,955**
Customer accounts repaid during the year	(32,574,243)	(323,241,353)	(3,259,104,762)	**(3,614,920,358)**
Accrued interest as at 31 December 2021	36,912	-	198,893	**235,805**
Exchange difference	(32,975)	11,044	(294,717)	**(316,648)**
Customer accounts as at 31 December 2021	**3,545,762**	**9,171,115**	**41,929,777**	**54,646,654**

44 Related Party Transactions (continued)

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

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

The income and expense items with the Bank's related parties for the year ended 31 December 2021 are as follows:

In thousands of Mongolian Tugriks	Directors and key management personnel	Immediate parent company	Entities under common control	Total
Interest income	152,318	340,887	270,062	**763,267**
Interest expense	109,870	15,996	458,400	**584,266**
Fee and commission income	3,543	21,363	33,991	**58,897**
Dividend paid	-	-	1,709,458	**1,709,458**
Consulting service received	-	3,960,000	-	**3,960,000**

The outstanding balance of the guarantee and letter of credit issued for the Bank's related parties for the year ended 31 December 2022 and 31 December 2021 is as follows:

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Guarantee		
Credit related commitment as at 01 January	**80,877,380**	**1,760,190**
Guarantees issued / exchange revaluation	151,704	53,400
Guarantee closed	(290,170)	(520,920)
Export letters of credit at the year end	168,976,874	79,584,710
Total credit related commitments	**249,715,788**	**80,877,380**
Less: provision for impairment of credit related commitments	-	-
Total credit related commitments	**249,715,788**	**80,877,380**

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

In thousands of Mongolian Tugriks	31 December 2022	31 December 2021
Salaries	3,928,079	3,680,875
Bonuses	1,144,987	574,105
Social security contributions	617,412	468,683
Share-based payment	104,413	-
Total	**5,794,891**	**4,723,663**

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

45 Share-based payments

During the period ended 31 December 2022, the Bank had share-based payment arrangements with directors and selected employees. The details of the arrangements are described below:

Arrangement	Share appreciation rights	Share options granted to key executives
Nature of the arrangement	Share appreciation rights	Grant of share options
Granted to	Selected employees	Directors
Date of grant	3/3/2022	3/3/2022
Number of instruments granted	2,265,632	283,326
Exercise price	1000	1000
Currency	MNT	MNT
Contractual life (years)	1	1
Vesting conditions	-	-
Settlement	Shares	Shares
Expected option life at grant date (years)	1	1
Expected departures (grant date)	10.8% evenly over 1 year	10.8% evenly over 1 year
Expected outcome of meeting performance criteria (at the grant date)	753,262,458	94,198,369
Currency	MNT	MNT
Valuation model	Dividend Discount Model	Dividend Discount Model

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

The fair value of shares and share options has been calculated using the Dividend Discount Model based on valuation of the Bank performed by external valuation experts.

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

In thousands of Mongolian Tugriks	2022	2021
Expense arising from equity-settled Share-based option transactions	847,461	-
Total expense after deferred tax	**635,596**	**-**

	2022		2021	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	2,548,958	1,000	-	-
Expired during the year	(249,356)	1,000	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	**2,299,602**	**1,000**	**-**	**-**

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

46 Event after the End of the Reporting period

Policy rate change: On 15 March 2024, the Bank of Mongolia announced a decrease in its policy rate from 13% to 12%.

Dividend declared. The Board of Directors of the Bank, on 15 February 2023, based on financial results of the year ended 31 December 2022 and, subsequently on 14 February 2024 based on financial results of year ended 31 December 2023, pursuant to Article 46.1 of the Company Law of Mongolia, approved a decision to distribute MNT 40,432,865 thousand (MNT 50 per share) and MNT 72,779,157.72 thousand (MNT 90 per share), respectively, to the shareholders of the Bank. Dividends for 2022 are fully paid and dividends for 2023 are expected to be paid within the second quarter of 2024.

Management is not aware of any other material events that occurred after the end of reporting period, and that would require adjustment to or disclosure in these financial statements.

47 Abbreviations

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

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