

IMPORTANT NOTICE

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THIS OFFER IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE OF THE UNITED STATES.

You must read the following disclaimer before continuing. The following disclaimer applies to the attached Offering Memorandum (the “Offering Memorandum”). You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached. In accessing the attached, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

The Notes (as defined in the attached Offering Memorandum) are only being offered and sold (1) if in the United States, to “qualified institutional buyers” as defined in Rule 144A in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. This Offer is available only to investors who are outside of the United States.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended or superseded, “MiFID II”); or (ii) a customer within the meaning of Directive 2016/97/EU (as amended or superseded, “IDD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended or superseded, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”) and the regulations made under the EUWA; (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the “FSMA”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA and the regulations made under the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA and the regulations made under the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

In connection with the offering, Deutsche Bank AG, Singapore Branch (“Deutsche Bank”), J.P. Morgan Securities plc (“J.P. Morgan”) and Korea Investment & Securities Asia Limited (“KIS Asia”) are not acting for anyone other than Golomt Bank JSC (the “Issuer”) and will not be responsible to anyone other than the Issuer for providing the protections afforded to their clients nor for providing advice in relation to the offering.

Restrictions: The attached Offering Memorandum is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described in the Offering Memorandum.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer, Deutsche Bank, J.P. Morgan or KIS Asia to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute a general advertisement or general solicitation (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere.

You are reminded that you have accessed the attached Offering Memorandum on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver or forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions that You May Not Take: You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

THE ATTACHED OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED.

The attached Offering Memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Issuer, Deutsche Bank, J.P. Morgan, KIS Asia nor any of their respective employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic document is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Confirmation of Your Representation: You have accessed the attached Offering Memorandum on the basis that you have confirmed your representation that (1) you and any customers you represent are outside the United States in compliance with Regulation S under the Securities Act and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, (2) that you consent to delivery of the attached Offering Memorandum and any amendments or supplements thereto by e-mail and (3) that you agree to the foregoing terms and conditions.



GOLOMT BANK
Investing for a brighter future

GOLOMT BANK JSC

(incorporated in Mongolia as an open joint-stock company)

US\$300,000,000 11.0% Senior Notes due 2027

The US\$300,000,000 11.0% Senior Notes due 2027 (the “Notes”) to be issued by Golomt Bank JSC (the “Issuer”) will bear interest from and including May 20, 2024 at the rate of 11.0% per annum payable semi-annually in arrears on May 20 and November 20 of each year commencing on November 20, 2024 and will mature on May 20, 2027.

The Issuer may redeem all, but not less than all, of the Notes upon the occurrence of certain changes in applicable tax laws. See “Description of the Notes — Redemption for Taxation Reasons.” The Notes will be issued only in registered form in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

The Notes will (i) be direct, unsecured and unsubordinated obligations of the Issuer, (ii) be senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes, (iii) rank at least pari passu in right of payment with all other unsecured and unsubordinated Indebtedness of the Issuer (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law) and (iv) be effectively subordinated to any secured obligations of the Issuer and the secured obligations of its subsidiaries, to the extent of the value of the assets serving as security therefor. The Bank of Mongolia has issued a letter of support to the Issuer as described under “Letter of Support from the Bank of Mongolia.” The Letter of Support does not constitute a guarantee and does not contain any legally binding obligations of the Bank of Mongolia under the Notes.

The Issuer plans to request a long-term swap agreement with the Bank of Mongolia to swap all USD proceeds from this offering to MNT to finance its ordinary business operations including lending operations. See “Use of Proceeds.”

Investing in the Notes involves significant risks. See “Risk Factors” beginning on page 20.

The Notes have not been nor will they be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and they may not be offered or sold within the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes are being offered and sold outside the United States in accordance with Regulation S of the Securities Act (“Regulation S”) and if in the United States only to qualified institutional buyers (“QIBs”) as defined in, and in reliance on, Rule 144A under the Securities Act (“Rule 144A”). Prospective investors are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See “Transfer Restrictions” for a description of certain restrictions on the purchase, resale or transfer of the Notes.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of our merits and the merits of our associated companies (if any) or the Notes.

The Notes are expected to be rated B3 by Moody’s and B by S&P.

Issue Price: 97.541% of the principal amount of the Notes

The Initial Purchasers (as defined herein) expect to deliver the Notes to purchasers in book-entry form only through The Depository Trust Company and its participants, including Euroclear Bank, SA/NV and Clearstream Banking S.A. on or about May 20, 2024. See “Plan of Distribution.”

Joint Global Coordinators and Joint Bookrunners
(in alphabetical order)

Deutsche Bank

J.P. Morgan

Joint Bookrunner

KIS Asia

Development Finance Structuring Agent

J.P. Morgan

May 9, 2024

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This Offering Memorandum has been prepared by us solely for use in connection with the proposed offering of the securities described in this Offering Memorandum. We have not, and Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc and Korea Investment & Securities Asia Limited (together, the “Initial Purchasers”) have not, authorized any other person to provide you with different information. We are not, and the Initial Purchasers are not, making an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this Offering Memorandum is accurate only as of the date on the front cover of this Offering Memorandum. Our business, financial condition, results of operations and prospects may have changed since that date.

NOTE TO INVESTORS

This Offering Memorandum is confidential. This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. You are authorized to use this Offering Memorandum solely for the purpose of considering the purchase of the Notes. Distribution of this Offering Memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing and to make no photocopies of this Offering Memorandum or any documents referred to in this Offering Memorandum.

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering and the Notes, including the merits and risks involved. Prospective investors should not construe anything in this Offering Memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

We have furnished the information in this Offering Memorandum. You acknowledge and agree that the Initial Purchasers, the Trustee, the Registrar and the Paying Agent and Transfer Agent (as defined below) (together, the “Agents”), or any of their respective directors, officers, employees, affiliates, advisers or agents, make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers. To the fullest extent permitted by law, none of the Initial Purchasers, the Trustee, the Agents, or any of their respective directors, officers, employees, affiliates, advisers or agents accept any responsibility for the contents of this Offering Memorandum or for any statement made or purported to be made by the Initial Purchasers, the Trustee, the Agents or on their behalf in connection with us or the issue and offering of the Notes. Each of the Initial Purchasers accordingly disclaims any and all liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Memorandum or any such statement. This Offering Memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference.

No assurance is given by the Issuer and J.P. Morgan Securities plc acting as the development finance structuring agent (the “Development Finance Structuring Agent”) or the Initial Purchasers that investing in the Notes or the use of proceeds by the Issuer will satisfy, whether in whole or in part, any present or future investor expectations or requirements with respect to development impact financing, including related sustainability criteria or goals. See “Sustainable Development Impact.” No independent verification as to the accuracy or completeness or lack thereof of the “Sustainable Development Impact” section of this Offering Memorandum has been done by J.P. Morgan Securities plc in its role as the Development Finance Structuring Agent or the Initial Purchasers. The information contained in the section “Sustainable Development Impact” of this Offering Memorandum (a) is not a substitute for an investor’s independent evaluation and analysis and (b) should not be considered as a recommendation by the Development Finance Structuring Agent or the Initial Purchasers that any transactions or related projects

described in the “Sustainable Development Impact” achieve any particular development finance criteria or requirement to which it may be subject. The “Sustainable Development Impact” section has been prepared, in part, based on certain forward-looking statements and projections provided by the Issuer. Any such statements and projections reflect various estimates and assumptions by the Issuer concerning anticipated results. No representations or warranties are made by the Development Finance Structuring Agent or the Initial Purchasers as to the accuracy of any such statements or projections. Whether or not any such forward looking statements or projections are in fact achieved will depend upon future events some of which may not be within the control of the Issuer. See “— Forward-Looking Statements.” Accordingly, actual results may vary from the projected results and such variations may be material. No fiduciary duties are owed to any party by the Development Finance Structuring Agent or the Initial Purchasers.

The distribution of this Offering Memorandum and the offering and sale of the Notes in certain jurisdictions may be restricted by law. No representation is made by us or the Initial Purchasers that this Offering Memorandum may be lawfully distributed or that the Notes may be lawfully offered in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes responsibility for facilitating any such distribution or offering or for a purchaser’s failure to comply with applicable laws and regulations. We and the Initial Purchasers require persons into whose possession this Offering Memorandum comes to inform themselves about and to observe any such restrictions. This Offering Memorandum does not constitute an offer of, or an invitation to purchase, the Notes in any jurisdiction in which such offer or sale would be unlawful. No one has taken any action that would permit a public offering to occur in any jurisdiction. For a description of certain restrictions on offers and sales of the Notes, and distribution of this Offering Memorandum, see “Transfer Restrictions” and “Plan of Distribution.”

We and the Initial Purchasers reserve the right to reject any offer to purchase any Notes, in whole or in part, for any reason, or to sell less than the aggregate principal amount of Notes offered by this Offering Memorandum.

In connection with the issue and distribution of the Notes, the Initial Purchasers or any person acting for it may, subject to applicable laws and regulations, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period of time. However, the Initial Purchasers or any person acting for them is under no obligation to do so. Furthermore, such stabilization, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

The Notes have not been and will not be registered under the Securities Act or any state securities laws in the United States. The Notes may only be offered or sold (1) if in the United States, to “qualified institutional buyers” as defined in Rule 144A in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. The Notes are not transferable except in accordance with the restrictions described in this Offering Memorandum. See “Plan of Distribution” and “Transfer Restrictions” in this Offering Memorandum.

Neither the United States Securities and Exchange Commission (the “SEC”) nor any state securities commission has approved or disapproved of the Notes or determined if this Offering Memorandum is truthful or complete. Any representation to the contrary is a criminal offense in the United States. This Offer is available only to investors who are outside of the United States.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or both) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “EU PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“EUWA”) and the regulations made under the EUWA; (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the “FSMA”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA and the regulations made under the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA and the regulations made under the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET

Solely for the purpose of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

UK MIFIR PRODUCT GOVERNANCE/ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS ONLY TARGET MARKET

Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that (i) the target market for the Notes is eligible counterparties (as defined in the FCA Handbook Conduct of Business Sourcebook) and professional clients (as defined in UK MiFIR) only, and (ii) all channels for distribution of the Notes to such eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “UK distributor”) should take into consideration the manufacturers’ target market assessment; however, a UK distributor subject to the UK MiFIR Product Governance Rules is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

NOTICE TO CAPITAL MARKET INTERMEDIARIES AND PROSPECTIVE INVESTORS PURSUANT TO PARAGRAPH 21 OF THE HONG KONG SFC CODE OF CONDUCT — IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

Prospective investors should be aware that certain intermediaries in the context of this offering of the Notes, including certain Joint Global Coordinators and Joint Bookrunners, are “capital market intermediaries” (“CMIs”) subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the “SFC Code”). This notice to prospective

investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as “overall coordinators” (“OCs”) for this offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an association (“Association”) with the Issuer, the CMI or the relevant group company. Prospective investors associated with the Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to this offering.

Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to this offering, such order is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should ensure, and by placing an order, prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e., two or more corresponding or identical orders placed via two or more CMIs). If a prospective investor is an asset management arm affiliated with the Joint Global Coordinators and Joint Bookrunners, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the Joint Global Coordinators and Joint Bookrunners or its group company has more than 50% interest, in which case it will be classified as a “proprietary order” and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such “proprietary order” may negatively impact the price discovery process in relation to this offering.

Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not such a “proprietary order”. If a prospective investor is otherwise affiliated with any of the Joint Global Coordinators and Joint Bookrunners, such that its order may be considered to be a “proprietary order” (pursuant to the SFC Code), such prospective investor should indicate to the relevant Joint Global Coordinators and Joint Bookrunners when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not such a “proprietary order”. Where prospective investors disclose such information but do not disclose that such “proprietary order” may negatively impact the price discovery process in relation to this offering, such “proprietary order” is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the Joint Global Coordinators and Joint Bookrunners and/or any other third parties as may be required by the SFC Code, including to the Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for this offering. Failure to provide such information may result in that order being rejected.

CERTAIN DEFINED TERMS AND CONVENTIONS

Unless the context otherwise requires, all references in this document to the “Issuer,” “we,” “us,” or the “Bank” refer to Golomt Bank JSC.

References in this document to “Government” are to the government of Mongolia. References in this document to “IFRS” are to International Financial Reporting Standards. Unless the context otherwise requires, references to a particular year are to the fiscal or financial year ended December 31 of such year.

All references in this document to “MNT” and “Tugriks” refer to Togrogs, the lawful currency of Mongolia; “U.S. dollars” and “US\$” refer to United States dollars, the lawful currency of the United States of America; “S\$” refers to Singapore dollars, the lawful currency of Singapore; “euro” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union (the “EU”), as amended; “CNY” and “RMB” refer to the Renminbi, the lawful currency of the People’s Republic of China (“PRC”).

FINANCIAL DATA

This Offering Memorandum contains our audited financial statements as of and for the years ended December 31, 2021, 2022 and 2023. In this Offering Memorandum, references to “2021,” “2022” and “2023” refer to the years ended December 31, 2021, 2022 and 2023, respectively. The financial statements of the Bank presented in this Offering Memorandum are prepared and presented in accordance with International Financial Reporting Standards (“IFRS”), which differ in certain respects from generally accepted accounting principles in the United States of America (“U.S. GAAP”), which might be material to the financial information herein. We have made no attempt to quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of us, the terms of this offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and U.S. GAAP, and how those differences might affect the financial information herein.

Our financial statements as of and for the years ended December 31, 2022 and 2023 were reissued as a result of correction of a disclosure, as explained in Note 38 to the financial statements for 2022 and 2023 included elsewhere in this Offering Memorandum.

The independent auditors’ report issued in connection with the audit of the financial statements for 2023 contains the following Emphasis of Matter: “We draw attention to Note 38.6 to the financial statements, which describes the effects of restatement of the financial statements as at and for the year ended 31 December 2023. The Bank identified misstatements on the liquidity risk disclosure and currency risk disclosure on the financial statements as at and for the year ended 31 December 2023. Such restatement caused us to perform additional procedures over those disclosures and amend our report previously issued at 27 March 2024, which is withdrawn and cannot be relied upon. Our opinion is not modified in respect of this matter.”

The independent auditors’ report issued in connection with the audit of the financial statements for 2022 contains the following 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.”

For convenience only, certain MNT amounts in this Offering Memorandum have been translated into U.S. dollars. Unless otherwise specified, all such conversions were made at the exchange rates based on the official rate between Togrogs and U.S. dollars (the “Market Average Exchange Rate”) published by the Bank of Mongolia in effect on December 31, 2023 which was MNT3,410.69 = US\$1.00. Other Togrogs amounts in this Offering Memorandum where translated into U.S. dollars have been converted at the

applicable rates specified. No representation is made that the Togrogs or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Togrogs, as the case may be, at any particular rate, or at all. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. Unless stated otherwise, all numbers in this document expressed as percentages of gross domestic product (“GDP”) refer to nominal GDP.

Certain numerical information in this Offering Memorandum has been rounded for convenience and, as a result, the totals of the data presented in this Offering Memorandum may vary slightly from the actual arithmetic totals of such information. In particular, in preparing the audited financial statements included in this Offering Memorandum, most numerical figures are presented in thousands of Togrogs. For the convenience of the reader of this Offering Memorandum, financial data, unless otherwise stated, was rounded to the nearest one million.

Certain statistical information has not been prepared in accordance with the international disclosure standards.

This Offering Memorandum includes certain data which we consider to constitute alternative performance measures (“APMs”), such as ROAE, ROAA, LDR, net interest margin, etc. APMs are not defined by, or presented in accordance with, IFRS. The APMs are unaudited and are not measurements of the Bank’s operating performance, liquidity or financial condition under IFRS and should not be considered as alternatives to any measures of performance, liquidity or financial condition under IFRS. We believe that the APMs provide useful information to investors for the purposes of evaluating our financial condition and results of operations, the quality of our assets and the fundamentals of our business. However, our use and method of calculation of APMs may vary from other companies’ use and calculation of such measures.

MONGOLIA STATISTICAL AND OTHER ECONOMIC DATA

Certain economic data and figures with respect to Mongolia were derived from information compiled and made available by the Bank of Mongolia, the National Statistical Office of Mongolia or other public sources. Neither we nor the Initial Purchasers have verified all such information with independent sources or make any representation as to the accuracy or completeness of such information. While we have taken reasonable actions to ensure that such information has been extracted accurately and in its proper context, we have not independently verified all of the data from these sources or ascertained the underlying economic assumptions relied upon therein.

Certain statistical or economic information included in this Offering Memorandum may differ from previously published information for a number of reasons, including ongoing statistical revisions. Also, certain monetary amounts included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

Unless otherwise indicated, all statistical data and economic figures for 2021, 2022 or 2023 or any part thereof are provisional figures based on preliminary data and are subject to review and adjustment.

INDUSTRY AND MARKET DATA

This Offering Memorandum includes market share and industry data and forecasts that we have obtained from industry publications and surveys. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but we cannot assure you that the information is complete or accurate. While we have taken reasonable actions to ensure that the information is extracted accurately and in its proper context, we have not independently verified any of the data from third-party sources or ascertained the underlying economic assumptions relied upon therein.

ENFORCEABILITY OF FOREIGN JUDGMENTS

The Issuer is a bank organized as an open joint-stock company listed on the Mongolian Stock Exchange and incorporated under the laws of Mongolia. All or a substantial portion of our assets are located in Mongolia. In addition, most of our directors and officers are residents of Mongolia and all or a substantial portion of their assets are or may be located in Mongolia. As a result, it may be difficult for you to effect service of process upon us or such persons, or to enforce against us or them judgments obtained in courts or arbitral tribunals outside Mongolia predicated upon the laws of jurisdictions other than Mongolia, including the civil liability provisions of the United States federal or state securities laws.

We have been advised by our Mongolian legal counsel, FLC (Financial Law Consulting LLC), that the courts of Mongolia will not enforce judgments of U.S. courts obtained against us, our directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws.

In the event of any proceedings being brought in a Mongolian court in respect of the enforcement in Mongolia of a foreign judgment expressed to be payable in a currency other than Togrogs, provided that there is a legal assistance treaty between Mongolia and the country of jurisdiction of that foreign court permitting enforcement in Mongolia or, in the case of an arbitration award, enforceable in Mongolia under the New York Convention, such foreign judgment or arbitration award will be enforceable in Mongolia. However, there can be no assurance that a Mongolian court would not require conversion of the awarded amount into Togrogs and order enforcement of the same in Mongolia in Togrogs.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our capital expenditure plans;
- our operations and business prospects;
- our financial performance;
- our financing plans;
- our ability to achieve the goals and intentions contained in our Sustainable Development Policy (as referred to herein);
- our dividend policy;
- the regulatory environment as well as the industry outlook generally;
- future developments in our industry; and
- general economic trends in Mongolia.

This Offering Memorandum contains certain statements that are “forward-looking” and uses forward-looking terminology such as “anticipate,” “believe,” “expect,” “estimate,” “may,” “ought to,” “should,” “will,” “can,” “could,” “continue,” “going forward,” “intend,” “plan,” “potential,” “seek” and similar expressions. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Purchasers of the Notes are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that,

although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard include those identified in the “Risk Factors” section in this Offering Memorandum. Actual results may differ materially from information contained in forward-looking statements as a result of numerous factors, including, without limitation, those described in the “Risk Factors” section in this Offering Memorandum and the following:

- our plans and objectives for future operations, including expansion or consolidation;
- trends in the composition and performance of our loan book portfolio;
- our relationship with, and other conditions affecting, our customers;
- competition;
- inflationary trends and interest rate changes;
- the effects of changes in currency exchange rates;
- regulatory and court decisions;
- future legislation, including regulations and rules as well as changes in enforcement policies;
- changes in political, economic, legal and social conditions in Mongolia, including specific policies with respect to the financial industry, housing industry, economic growth, inflation, foreign exchanges and the availability of credit;
- economic conditions in Asia, the United States, Europe and elsewhere in the world;
- weather conditions or catastrophic weather-related damage in Mongolia; and
- our liquidity and financial condition.

We do not undertake and are under no obligation to publicly update or revise any forward-looking statements contained in this Offering Memorandum, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this Offering Memorandum are qualified by reference to this cautionary statement.

In light of these and other risks and uncertainties, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved.

AVAILABLE INFORMATION

We have agreed that, for so long as the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from such reporting requirements pursuant to Rule 12g3-2(b) thereunder, furnish to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire Offering Memorandum, including “Risk Factors” and the financial statements and related notes included in this Offering Memorandum before making an investment decision. This summary uses certain terms that refer to alternative performance measures, or APMs, that are presented and defined below in “Summary Financial Data and Other Information — Other Selected Financial Data.”

OVERVIEW

We are a leading banking and financial services provider in Mongolia, offering a wide range of commercial banking services to corporate, small and medium-sized enterprise (“SME”) and retail customers. We are one of the largest banks in Mongolia with total assets of MNT11,627,844.2 million (US\$3,409.2 million) and total equity of MNT1,071,090.7 million (US\$314.0 million) as of December 31, 2023. As of December 31, 2023, we had over one million customers, representing approximately 32% of Mongolia’s population.

Given our size, scale and significant and fundamental presence in the Mongolian banking sector and overall economy, we are a domestic systemically important bank in Mongolia. As of December 31, 2023, according to our internal data, the Bank of Mongolia and the international SWIFT watch report, we had market share of 25.2%, 18.8%, 68.5% and 45.2% in terms of corporate and SME deposits, corporate and SME loans, foreign guarantees and letter of credits by amount as well as the number of funds our custodian banking serves in the Mongolian banking system, respectively. As of December 31, 2023, according to our internal data and the Bank of Mongolia, we had market share of 24.4%, 16.5%, 47.6%, 15.8% and 71.0% for retail services such as mortgage loans, individual loans, credit card loans, individual deposits and online retail transactions, respectively. As of December 31, 2023, according to our internal data and the Bank of Mongolia, we had market share of 20.1%, 17.5% and 20.0% measured by total assets, total loan amounts and total deposits, respectively. We are headquartered in Ulaanbaatar and all of our operations are conducted in Mongolia. As of December 31, 2023, we operated a network of 75 branches, including 48 branches located in Ulaanbaatar and 27 in rural areas. We also operate one of the largest ATM networks in Mongolia with 420 ATMs and CDMs.

We have been technological innovators in the Mongolian banking industry since our establishment in 1995. We introduced numerous “first-of-kind” banking products and services in Mongolia. For example, we were the first bank in Mongolia to offer MasterCard, UnionPay and American Express credit cards, 24/7 branch services, and the integrated “KHUR” system, a Government data exchange portal, to streamline the customer documentation processes and reduce paper usage. In 2013, we introduced Mongolia’s first smartphone-based banking and financial application and we believe we provide our customers with one of the most technologically advanced digital wallets and payment platforms in Mongolia through our “SocialPay” and “Smart Bank” applications. We integrated an internationally well-known core banking system, the Infosys Finacle, allowing us to deliver a wide range of high-quality services to our customers ahead of peer banks, which have only recently begun a similar integration. We have significant digital penetration across our customer base relative to our peers.

Our leadership, market position and innovations have been recognized with multiple awards. We were named “The Best Bank of Mongolia” in 2023 by *Euromoney* magazine, “The Best Domestic Bank in Mongolia 2023” by *Asiamoney* magazine, “Bank of the Year of Mongolia” for eight years by *The Banker* magazine, the “Best Digital Bank of Mongolia” for four consecutive years from 2012 to 2015 and five consecutive years from 2019 to 2023 by *Global Finance Magazine* and “Innovation Awards 2023” by *Infosys Financial* in recognition of our achievements in providing innovative products and services.

Our issuer credit rating, risk assessment — foreign currency, risk assessment — domestic currency and basic credit worthiness assessment are “B3 (Stable),” “B3/NP,” “B2/NP” and “B3,” respectively, from Moody’s Investor Services, Inc. (“Moody’s”) and our issuer credit rating, securities valuation and liquidity assessment are “B (Stable),” “B” and “B+,” respectively, from Standard & Poor’s Rating Services (“S&P”). In November 2022, we completed our IPO and listing on the Mongolian Stock Exchange.

COMPETITIVE STRENGTHS

We believe we possess the following competitive strengths:

Pivotal role in the growth and diversification of Mongolia's economy

Mongolia's long-term development policy, "Vision 2050," sets forth a clear roadmap for the country's long-term economic growth. Priorities include developing a multi-pillar, stable economy with an enhanced position in global markets, creating "smart" financial markets offering digital-based, multi-faceted financial services and promoting regional cooperation to facilitate trade. As a domestic systemically important bank in Mongolia, we play a vital role in building a diversified and sustainable economy in Mongolia and supporting Mongolia's policy objectives. We have developed a diversified and well-balanced loan portfolio that closely aligns with the Mongolian banking system's loan composition. As of December 31, 2023, our corporate, SME, retail and mortgage loans¹ represented 28.8%, 25.3%, 24.6% and 21.3%, respectively, of our total loan portfolio. These same loan categories comprised approximately 31%, 23%, 33% and 13%, respectively, of the Mongolian banking system's loan composition as of the same date. We intend to further diversify our loan portfolio to support sustainable industries and policy objectives. To that end, we are actively promoting numerous sustainable loan products including green business loans, electric and eco-vehicle loans, green housing loans, women business loans and green micro-loans and leasing in collaboration with various international financial institutions.

We strategically align our lending activities with impactful projects in Mongolia, contributing to the nation's development and growth. Examples include the Oyu Tolgoi's supply chain financing, financing road construction projects to connect rural areas and railway infrastructure projects aimed at bolstering export capabilities. As a consequence of our diverse customer base, which includes both corporates, SMEs and retail customers, we facilitate supply chain financing within our customer network to support sustainable business growth throughout Mongolia.

We have held a leading position in custodian banking since we introduced the service to Mongolia in 2014, servicing approximately 45.2% of the funds operating in Mongolia, and we have a developed bancassurance offering with a market share of approximately 23.7%, each as of December 31, 2023, according to the Bank of Mongolia. We play a vital role in supporting cross-border trade in Mongolia, both regionally and globally. We maintain a leading position in the fields of foreign guarantees and letter of credit issuance services with market share of 68.5% in terms of foreign guarantees and letter of credit by amount in the Mongolian banking system as of December 31, 2023, according to the international SWIFT watch report, and we hold a leading position in the foreign-exchange market, conducting settlements in 16 different currencies. We have solidified our collaborations with development financial institutions such as the IFC and ADB, leading to our re-onboarding as a partner bank in their global trade finance programs in 2023 and early 2024, respectively.

Strong growth with improving profitability and margins

Our growth has outpaced the banking industry in Mongolia since the Covid-19 pandemic and we are the only one of the five domestic systemically important banks to achieve growth in all of the total assets, total loans and advances to customers and total customer deposits in 2021, 2022 and 2023. Our total assets increased from MNT7,994,056.8 million as of December 31, 2021 to MNT11,627,844.2 million (US\$3,409.2 million) as of December 31, 2023, representing a CAGR of 20.6%, higher than the average of 18% of all Mongolian banks. Our total loans and advances to customers increased from MNT3,500,149.0 million as of December 31, 2021 to MNT4,877,300.3 million (US\$1,430.0 million) as of December 31, 2023, representing a CAGR of 18.1%, higher than the average of 14% of all Mongolian banks. Our total customer deposits increased from MNT5,463,543.4 million as of December 31, 2021 to MNT8,036,633.7 million (US\$2,356.3 million) as of December 31, 2023, representing a CAGR of 21.3%, higher than the average of 16% of all Mongolian banks.

¹ Loan amounts are presented by gross amount.

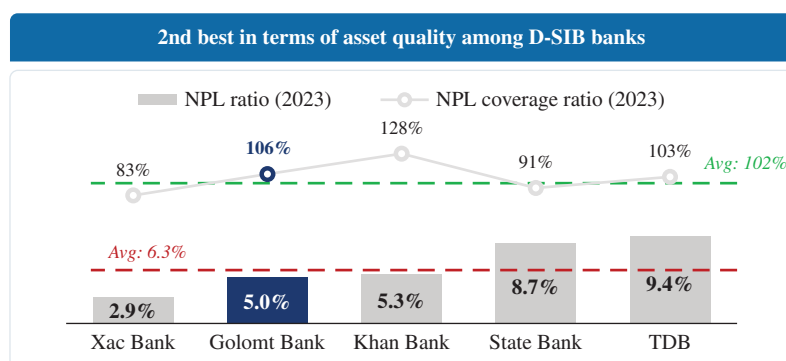
Moreover, we improved core profitability and asset quality on the back of expanding margin and recovered asset quality. Our profit for the year increased from MNT25,936.7 million for 2021 to MNT209,171.0 million (US\$61.3 million) for 2023, representing a CAGR of 184.0%, higher than the average of 54% of all Mongolian banks. As of December 31, 2021, 2022 and 2023, our return on average equity was 5.1%, 19.5% and 24.1%, respectively, and our return on average assets was 0.3%, 1.4% and 2.2%, respectively. In 2021, 2022 and 2023, our net interest margin was 4.6%, 5.9% and 6.5%, respectively. Our cost income ratio (including swap impact) was 41.5%, 33.3% and 44.1%, respectively.

Steady improvement of asset quality with market-leading credit quality

Our strategic portfolio rebalancing, we believe, continues to pave the way for asset quality improvement. Given the historically higher NPL ratio for corporate borrowers in the banking sector of Mongolia as compared to retail borrowers, we strategically reduced our large corporate borrowers' portfolio over the past few years while increasing our retail portfolio, as indicated in the following diagram:



In 2021, 2022 and 2023, our asset quality improved steadily and our NPL ratios were 7.6%, 6.9% and 5.0%, respectively, our special mention loan ratios were 8.2%, 5.7% and 5.7%, respectively, and our NPL coverage ratios were 72.5%, 96.4% and 106.2%, respectively. Specifically, our asset quality ranked second as measured by NPL ratio among the five domestic systemically important banks in Mongolia. Our NPL ratio of 5.0% as of December 31, 2023 was lower than the average of 6.3% for all five domestic systemically important banks in Mongolia as indicated in the following diagram:



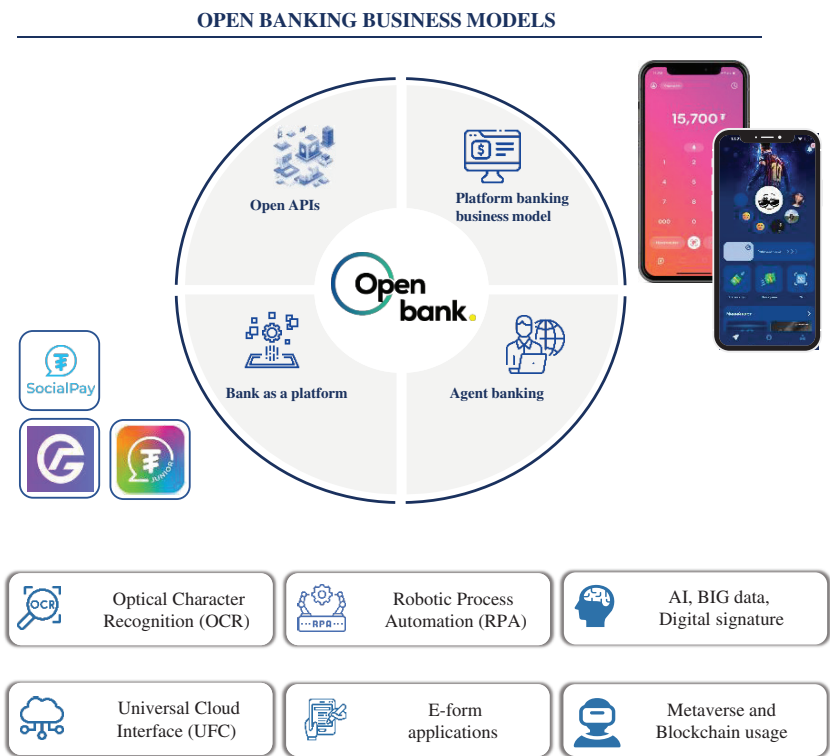
Source: annual reports of D-SIB banks

Sufficient capital buffer and sound liquidity

We have strengthened our capitalization following our IPO on the Mongolian Stock Exchange in 2022. We have built an efficient capital management system in 2023 by expanding lending size and continuous investment in digital transformation. Our capital adequacy ratios were 15.4%, 17.9% and 15.9% as of December 31, 2021, 2022 and 2023, respectively, substantially higher than the minimum capital adequacy ratio of 12% set by the Bank of Mongolia. Our Tier I capital ratio was 15.0%, 17.9% and 15.9%, respectively, substantially higher than the minimum Tier I capital ratio of 13% including 4% buffer set by the Bank of Mongolia. We maintain a stable liquidity portfolio backed by our solid customer deposit base. As of December 31, 2021, 2022 and 2023, our liquidity ratios were 41.3%, 36.3% and 38.3%, respectively, substantially higher than the minimum liquidity ratio of 25% required by the Bank of Mongolia, and our loan-to-deposit ratios were 64.1%, 67.8% and 60.7%, respectively.

Leading franchise in digital transformation and innovation

We have been technological innovators in the Mongolian banking industry since our establishment in 1995. We introduced a set of comprehensive open bank services which enable our corporate and retail customers to efficiently access daily banking services online through our application programming interfaces. We believe that we have significant digital penetration across our customer base. For example, our digital users increased from approximately 619,000 as of December 31, 2021 to approximately 832,000 as of December 31, 2023, representing a CAGR of 15.9%. As of December 31, 2023, 73% of our total customers were digital users and 98% of transactions happen in online channels.⁽¹⁾ As of December 31, 2023, according to our internal data and the Bank of Mongolia, we had market share of 19% in terms of digital user base in the Mongolian banking system. We believe we have established a more cost-efficient operation driven by the digitalization of work streams, which resulted in MNT106 billion transaction and service costs saved in 2021, 2022 and 2023.



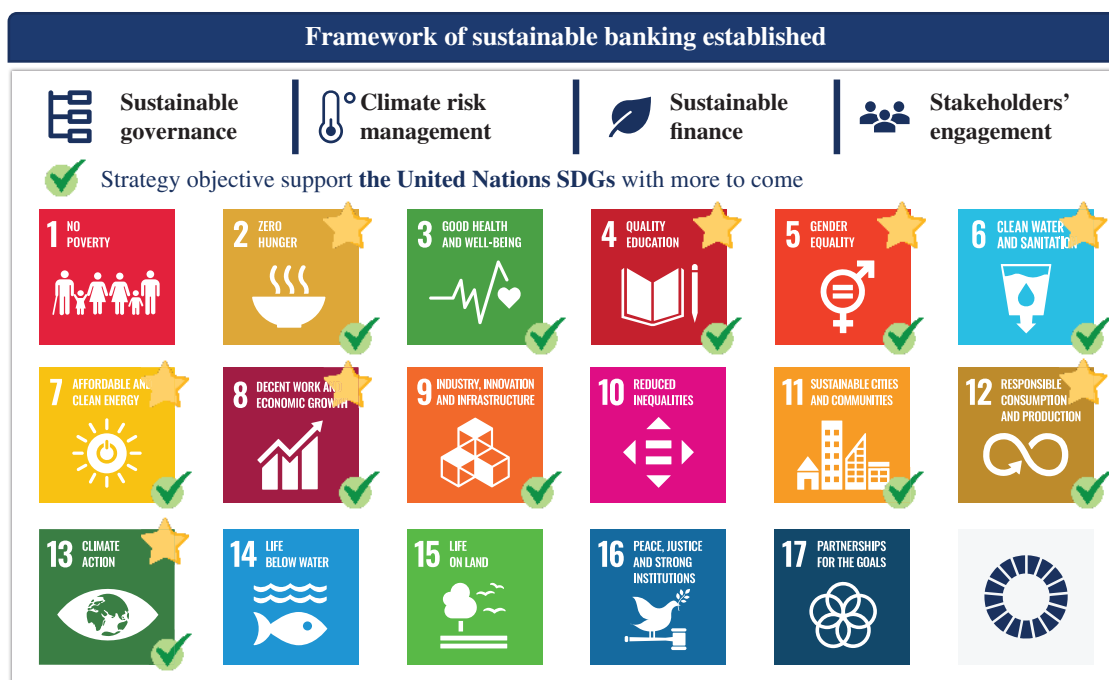
Our digital products and service experience has led to higher customer satisfaction. According to our online customer satisfaction survey in 2023, 79% of our customers indicated they were satisfied with our online and mobile banking services and 82% of our customers indicated they were satisfied with our “SocialPay” digital wallet product. We were granted “Innovation Awards 2023” by *Infosys Financial*, “The Best Digital Bank in Mongolia 2022” by *Global Finance*, and the “Best Product and Services 2023” award by *Mindgolia* in recognition of our achievements in providing innovative products and services.

Notes:

1. Online transactions encompass all forms of bank transactions conducted by customers through internet banking, mobile applications (such as Smart Bank and SocialPay app), and KIOSK channels. These are compared against the total number of the Bank transactions.

Proven path and unwavering commitment to Sustainability

We have developed a comprehensive sustainable banking framework supported by four key pillars: (i) sustainable governance; (ii) climate risk management; (iii) sustainable finance; and (iv) stakeholder engagement. We support 11 of 17 sustainable development goals (“SDGs”) of the United Nations as well as of the Paris Agreement’s goal of transitioning to net zero emissions by 2050 as indicated in the diagram below.



Consistent with our sustainable banking commitment, our green loan portfolio increased from MNT98 billion as of December 31, 2021 to MNT183 billion (US\$53.7 million), as of December 31, 2023, representing a CAGR of 36.7% and we expect this growth in our sustainable loan portfolio to continue. We offer comprehensive sustainable loan products to our customers which are designed to encourage customers to adopt sustainable practices. Our sustainable loan products include sustainable and green business loans, electric and eco vehicle loans, green housing loans, women business loans and green micro loan and leasing. The maximum credit lines across these product categories range from MNT20 million to MNT10 billion with tenors ranging from 30-240 months.

In 2019, we established our Sustainable Development Committee and Gender Equality Committee to advance our ESG-focused activities, and we aim to reduce greenhouse gas emissions in our operational footprint by 2050. We developed our sustainable finance framework in March 22, 2024, and obtained the S&P Global Ratings SPO (Second Party Opinion) on April 8, 2024.

We have a diversified sustainable loan portfolio supporting our strategy objectives in support of Mongolia’s “Vision 2050” development plan and the United Nations SDGs. Recent loans include financings for: (i) a seven-year US\$6.1 million loan to a leading pharmaceutical company to fund its first plant-based energy efficient pharmaceutical factory with GMP-standards; (ii) a five-year US\$2.4 million loan to a global packaging solutions company to fund its production line of paper recycling using 100% ecofriendly raw materials; (iii) a three-year US\$17 million loan to a Mongolian cashmere company to fund sustainable agriculture and purchase of green equipment related to cashmere, camel and wool products; (iv) a three-year US\$9 million loan to a real estate development company for financing an energy efficient housing development project for 125 households and (v) a five-year US\$2.2 million loan to finance a leading recycling factory. For additional information, see “Sustainable Banking” and “Sustainable Development Impact.”

Seasoned and visionary management and board team

We have an innovative management team with outstanding strategic vision and rich industry experience. Our management team has diverse backgrounds and many members have worked in various aspects of the financial services industry for decades. Mr. Norihiko Kato, our chief executive officer has over 30 years' experience in the banking industry and has held leadership positions in a large global bank. Mrs. Munkhtsetseg, our chairperson, possesses decades of relevant experience and has held consulting, managerial and executive roles at the World Bank, the Asia Foundation and Nepko Publishing Company. Our senior management team has an average of 19 years' experience in the financial services industry, and their rich management experience has enhanced our business development, compliance management and financial performance.

STRATEGIES

We aim to maintain and further develop our vision as Mongolia's global benchmark bank and our mission to be the genesis of prosperity. We intend to implement the following strategies to achieve these objectives:

Continue to digitally transform our operations and service delivery to customers

We have been a pioneer in the Mongolian banking sector, and we pride ourselves on our commercial and innovative spirit. We intend to leverage our innovative heritage to further implement our digital transformation strategy, which will be led and promoted by our Digital Transformation Division. We intend to provide customers with more digital products and services in line with a customer-centric and "invisible" banking strategy to drive further digital customer engagement across our products and services. These products include digital salary and pension loans, digital consumer and green consumer loans and an enhanced, automated loan process to speed up the approval timeline. Also, we intend to offer "smart" kiosks in our branch locations that provide a suite of products and services to our customers via a digital interface as well as open additional customer service channels through virtual assistants and AI-driven chatbots. We plan to expand our card payment/QR code payment options and further expand the products and services offered on our "SocialPay" digital wallet such as virtual credit cards and direct linkage to gaming and AR/VR, third-party products and family saving products.

Expand and enhance our customer base through innovative products and services and market-leading customer experience

We plan to grow our customer base by offering new and innovative products and services through our digital channels and expand our branch network to cater to specific customers and geographies. For example, we expect to open seven new VIP branches to attract more high-net worth individuals and drive new business to our wealth management products. We plan to develop financial and investment advisory as well as investment banking services. Also, we plan to open "GenZ" centers to attract and activate a younger customer base and further drive our digital product and services. We plan to open four more branches in rural areas in 2024 and fully cover all provinces of Mongolia with our branch office presence by 2026. We intend to add 75 "smart" kiosks and 100 ATMs to our network to further increase our reach and digital touchpoints with our current customers.

We have received positive feedback from our customers regarding our customer service and we intend to continue to focus on customers through: (i) ensuring customer experience excellence by providing digital and third-party collaborations with customers, providing innovative products and services and superior customer complaint handling; (ii) high-quality operations through improved products, services and technology upgrades; and (iii) providing easy-to-understand products and services through fully functional product offerings and text and video content for customers explain new products and services.

Strengthen our commitment to sustainable banking

We intend to collaborate with our stakeholders to foster sustainable industries in Mongolia and to contribute to a sustainable global environment. We have developed a comprehensive sustainable banking framework supported by four key pillars: (i) sustainable governance, under which we plan to develop a sustainability-driven governance across the Bank, reduction of our own environmental and social footprints and green capacity building of our employees; (ii) climate risk management, under which we intend to enhance our environmental and social risk management system and further align our business with our commitment to reduce climate change risk and contribute to the national and international goals of reducing greenhouse gas emissions; (iii) sustainable finance, under which we plan to further build our green loan portfolio based on Mongolia's green taxonomy with intended goal of green loans comprising 5% of our total portfolio by 2025 and 10% by 2030; and (iv) stakeholder engagement under which we intend to collaborate with key stakeholders of sustainable development implementation in Mongolia, including our clients, regulators and policy makers, and local and international partners. We support 11 of 17 sustainable development goals of the United Nations as well as of the Paris Agreement's goal of transitioning to net zero emissions by 2050, which are good health and well-being, quality education, gender equality, clear water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, sustainable cities and communities, responsible consumption and production and climate action. For additional information regarding our sustainable banking policies and initiatives, see "Sustainable Banking."

Enhance branding, stakeholder engagement and employee focus

We intend to create and maintain our image and brand as a trustworthy and reliable bank and further strengthen our market leading position in the Mongolian banking industry. We intend to continue to build our image as Mongolia's global benchmark bank and as a genesis of prosperity for current and future generations of Mongolians. Following our IPO in 2022 and as our stakeholder base continues to diversify, we intend to continue to augment our stakeholder engagement through regular investor relations exercises, focused PR initiatives and communication and active participation in global conferences and in-person and virtual management roadshows. We believe our customer service is important to driving growth, and investment in our employees is a key to that success. With over 2,300 employees, we strive to be one of the leading employers in Mongolia. We intend to continue to offer competitive salaries, benefits and comprehensive training programs to our staff and we aim to foster a supportive culture with a flexible working environment to broaden opportunities for professional growth.

RECENT DEVELOPMENTS

Mr. Urs Ernst Schwarzenbach resigned as a member of our board of directors on April 12, 2024 a position he held from June 1, 2011. Mr. Urs Ernst Schwarzenbach is a shareholder who holds 5.16% equity interest in us.

GENERAL INFORMATION

Our principal place of business is located at Sukhbaatar Square 5, P.O. Box 22, Ulaanbaatar 15160, Mongolia. Our telephone number at that address is +976 7011 1646.

SUMMARY OF THE OFFERING

The following is a brief summary of the terms of this offering and is qualified in its entirety by the remainder of this Offering Memorandum. For a detailed description of the Notes, see the section entitled “Description of the Notes.” The terms and conditions of the Notes prevail to the extent of any inconsistency with the summary set forth in this section. This summary is not intended to be complete and does not contain all of the information that is important to an investor. Phrases used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Notes.”

Issuer	Golomt Bank JSC, incorporated under the laws of Mongolia as an open joint-stock company
Notes Offered	US\$300,000,000 aggregate principal amount of 11.0% Senior Notes due 2027 (the “Notes”).
Issue Price	97.541% of the principal amount of the Notes.
Issue Date	May 20, 2024.
Maturity Date	May 20, 2027.
Interest	The Notes will bear interest at a rate of 11.0% per annum, payable semi-annually in arrears on May 20 and November 20 of each year, commencing on November 20, 2024.
Ranking of the Notes	The Notes will be direct, unsecured and unsubordinated obligations of the Issuer, be senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes, rank at least pari passu in right of payment with all other unsecured and unsubordinated indebtedness of the Issuer (subject to any priority rights of such unsubordinated Debt pursuant to applicable law) and will be effectively subordinated to secured obligations of the Issuer, to the extent of the value of the assets serving as security therefor.
Letter of Support from the Bank of Mongolia	The Bank of Mongolia has issued a letter of support (the “BoM Letter of Support”) to the Issuer stating that, inter alia, in connection with the issuance of the Notes, it considers the Bank is of key importance to the financial sector due to its designation as a domestic systemically important bank. The Bank of Mongolia confirms that we are fully compliant with all prudential requirements set by the Bank of Mongolia, as well as other requirements delineated in the Banking Law. With the proceeds of the Notes, the Bank is eligible to request a long-term swap agreement with the Bank of Mongolia. See “Letter of Support From the Bank of Mongolia.” The BoM Letter of Support is not a guarantee of the Issuer’s obligations under the Notes. See “Risk Factors — Risk Relating to the Notes — The Letter of Support is not a guarantee and does not contain any legally binding obligations of the Bank of Mongolia in relation to the Notes.”

Use of Proceeds The gross proceeds from this offering, before deducting fees, commissions and other estimated expenses payable in connection with this offering, are US\$292,623,000.

See “Use of Proceeds.”

Additional Amounts. Subject to certain exceptions, the Issuer will pay such Additional Amounts as will result in receipt by the holder of the Notes of such amounts as would have been received by such holder had no deduction or withholding of Mongolian (and certain other) taxes been required. See “Description of the Notes — Additional Amounts.”

Redemption for Taxation Reasons . Subject to certain conditions and exceptions, the Notes may be redeemed at the option of the Issuer, as a whole but not in part, at a redemption price equal to 100.0% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed for such redemption, in the event that, as a result of certain changes in tax laws, the Issuer becomes obligated to pay Additional Amounts in respect of certain withholding tax. See “Description of the Notes — Redemption for Taxation Reasons.”

Further Issues The Issuer will initially issue US\$300,000,000 in aggregate principal amount of the Notes. Subject to certain conditions, the Issuer may, from time to time, without notice, to or the consent of, the Holders, issue Additional Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, issue price and the date of first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; provided that, in order for Additional Notes to have the same CUSIP, ISIN, or other identifying number as the outstanding Notes, the Additional Notes must be fungible with the outstanding Notes for U.S. federal income tax purposes.

Covenants. The Issuer will agree to observe certain covenants limiting the ability of the Issuer (and its Subsidiaries, if any) to pay dividends, redeem subordinated debt or make other restricted payments, enter into certain transactions with affiliates and fail to comply with capital adequacy requirements, among other limitations. See “Description of the Notes — Certain Covenants.”

Transfer Restrictions The Notes have not been registered under the Securities Act, or the securities laws of any other jurisdiction, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold in the United States only to qualified institutional buyers (as defined in Rule 144A) in accordance with Rule 144A and outside the United States in offshore transactions in accordance with Regulation S.

For a description of these and other restrictions on offers, resales and transfers of the Notes, see “Plan of Distribution” and “Transfer Restrictions.”

Book-Entry Only. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by The Depository Trust Company (“DTC”) and its direct and indirect participants, including Euroclear and Clearstream.

Notes sold in the United States to qualified institutional buyers in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons and will be deposited with the Trustee as custodian for, and registered in the name of a nominee of DTC. Notes sold outside the United States in offshore transactions in reliance on Regulation S will be represented by one or more permanent global notes in fully registered form without interest coupons and will be deposited with the Trustee as custodian for, and registered in the name of a nominee of DTC for the respective accounts of Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, société anonyme, or Clearstream, Luxembourg, each of which is a participant in DTC. See “Description of the Notes — Book-Entry, Delivery and Form.”

Delivery of the Notes The Issuer expects to make delivery of the Notes, against payment in same-day funds on or about May 20, 2024 which the Issuer expects will be the sixth business day following the date of this offering memorandum, referred to as “T+6.” You should note that initial trading of the Notes may be affected by the T+6 settlement. See “Plan of Distribution.”

Trustee Deutsche Bank Trust Company Americas

Paying Agent and Transfer Agent Deutsche Bank Trust Company Americas

Registrar. Deutsche Bank Trust Company Americas

Development Finance Structuring Agent J.P. Morgan Securities plc.

Listing Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for Notes in definitive form, we will appoint and maintain a paying agent in Singapore, where the Notes in definitive form may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for Notes in definitive form, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the Notes in definitive form, including details of the paying agent in Singapore.

Ratings	The Notes are expected to be rated B3 by Moody's and B by S&P. We cannot assure investors that these ratings will not be adversely revised or withdrawn either before or after delivery of the Notes. A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody's and/or S&P.
Governing law	The Notes and the Indenture will be governed by, and construed in accordance with, the laws of the State of New York, without regard to conflicts of laws principles thereof.
Original Issue Discount	The Notes may be issued with original issue discount for U.S. federal income tax purposes. The Notes will be considered to be issued with original issue discount if the stated principal amount of the Notes exceeds the issue price of the Notes (as determined for U.S. federal income tax purposes) by an amount greater than or equal to a statutorily defined <i>de minimis</i> amount. If the Notes are issued with original issue discount, U.S. Holders (as defined below under "Taxation — Certain U.S. Federal Income Tax Considerations") will be required to include original issue discount in gross income (as ordinary income) generally on a constant yield to maturity basis in advance of the receipt of cash payments to which such income is attributable regardless of such holders' regular method of accounting for U.S. federal income tax purposes. Please see "Taxation — Certain U.S. Federal Income Tax Considerations" for a further discussion.
Dispute resolution	Singapore International Arbitration Centre (with submission to to the non-exclusive jurisdiction of the state and federal courts sitting in the Borough of Manhattan, New York, New York for the sole purpose of judicial relief in support of any arbitration).
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see "Risk Factors."

	Rule 144A Notes	Regulation S Notes
ISIN	US381930AA49	USY27906AA76
CUSIP	381930 AA4	Y27906 AA7
Common code	280652091	280660779
Legal Entity Identifier code.	549300QLH7BRA4EIZO16	

SUMMARY FINANCIAL INFORMATION AND OTHER DATA

You should read the summary financial information presented below in conjunction with the financial statements and the notes thereto included elsewhere in this Offering Memorandum. You should also read the section of this Offering Memorandum entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We have derived our summary statement of profit or loss and other comprehensive income and statements of financial position data as of and for the years ended December 31, 2021, 2022 and 2023 in the tables below from our audited financial statements included elsewhere in this Offering Memorandum. Our financial statements for the years ended December 31, 2021, 2022 and 2023 were audited. We have prepared and presented our financial statements in accordance with IFRS, which differ in certain material respects from U.S. GAAP. Our financial statements are presented in Mongolian Togrogs and are not intended to present our financial position, financial performance and cash flows in accordance with accounting principles other than IFRS. In making an investment decision, you should rely upon your own examination of the terms of this offering of the Notes and the financial information contained in this Offering Memorandum.

SUMMARY OF STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Interest income calculated using the effective interest method	526,486.2	576,384.9	792,710.2	232.4
Other similar income	28,291.4	33,524.2	48,022.4	14.1
Interest expense	(271,258.0)	(222,857.2)	(361,581.0)	(106.0)
Other similar expense	(1,560.6)	(1,481.2)	(1,859.4)	(0.5)
Net interest income	281,959.1	385,570.8	477,292.1	139.9
Reversal/(charge) of expected credit loss	(35,770.5)	(45,969.5)	28,074.7	8.2
Net interest income after expected credit loss	246,188.6	339,601.3	505,366.8	148.2
Fee and commission income	62,493.1	84,132.0	102,170.9	30.0
Fee and commission expense	(21,714.2)	(39,961.2)	(60,190.4)	(17.6)
Gains less losses from financial assets at fair value through profit or loss	1,695.8	7,326.8	3,439.6	1.0
Gains less losses from modification of borrowed fund at amortised cost	3,638.5	1,794.2	—	—
Losses less gains from disposal of financial assets at fair value through other comprehensive income	(0.6)	(48.3)	(641.1)	(0.2)
Gains less losses from financial derivatives	(21,818.6)	34,725.6	(133,811.4)	(39.2)
Gains less losses from trading in precious metals	4,785.5	7,815.4	9,362.7	2.7
Foreign exchange translation losses less gains	153.1	(10,060.1)	(8,254.6)	(2.4)
Gains less losses from trading in foreign currencies	20,398.5	58,229.0	62,258.4	18.3
Losses less gains from loans at fair value through profit or loss	(14,571.3)	(6,120.0)	(805.5)	(0.2)
Losses less gains from modification of financial assets measured at amortised cost, that did not lead to derecognition	(848.1)	(1,688.5)	1,321.9	0.4
Reversal of expected credit loss allowance of debt securities at amortised cost	(2.7)	4.2	61.0	—
Expected credit loss for debt securities at fair value through other comprehensive income	(1,782.5)	(662.3)	(2,540.3)	(0.7)
Reversal/(losses) of expected credit loss of due from banks	13.6	(3,584.4)	1,407.0	0.4
Losses on initial recognition of assets at rates below market	(2,636.1)	(235.8)	(2.2)	—
Expected credit loss of other assets	(539.9)	(868.0)	(1,557.5)	(0.5)
Losses less gains from assets held for sale	(3,973.1)	5.4	(12,248.1)	(3.6)

	For the year ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Impairment provision charge for and loss from decrease in fair value of repossessed collateral	(78,887.8)	(96,897.8)	—	—
Provision (charge)/reversal for guarantees and letters of credit	1,958.9	(509.3)	(1,266.7)	(0.4)
Losses less gains on revaluation of investment properties	(7,426.3)	(3,372.6)	—	—
Dividend received	204.4	32.8	75.6	—
Other operating income	3,835.0	1,155.0	2,288.3	0.7
Administrative and other operating expenses	(137,139.6)	(175,345.9)	(200,159.3)	(58.7)
Other losses, net	(1,453.4)	(1,669.2)	(240.1)	(0.1)
Profit before tax	<u>52,570.9</u>	<u>193,798.0</u>	<u>266,035.1</u>	<u>78.0</u>
Income tax expense	(26,634.2)	(77,295.9)	(56,864.1)	(16.7)
Profit for the year	<u>25,936.7</u>	<u>116,502.0</u>	<u>209,171.0</u>	<u>61.3</u>
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Debt securities at fair value through other comprehensive income:				
— Gains less losses arising during the year	2,680.6	(50,471.6)	53,715.0	15.7
— Gains less losses reclassified to profit or loss upon disposal	0.6	48.3	641.1	0.2
Income tax recorded directly in other comprehensive income	(670.3)	12,605.8	(13,589.0)	(4.0)
Items that will not be reclassified to profit or loss:				
Gains less losses on investments in equity securities at fair value through other comprehensive income	1,153.9	(558.3)	—	—
Income tax recorded directly in other comprehensive income	(288.5)	139.6	—	—
Other comprehensive income/loss	<u>2,876.3</u>	<u>(38,236.1)</u>	<u>40,767.1</u>	<u>12.0</u>
Total comprehensive income for the year	<u>28,813.0</u>	<u>78,266.0</u>	<u>249,938.1</u>	<u>73.3</u>
Basic earnings per share for profit attributable to the owners of the Bank	<u>0.04</u>	<u>0.16</u>	<u>0.26</u>	<u>—</u>
Diluted earnings per share for profit attributable to the owners of the Bank	<u>0.04</u>	<u>0.16</u>	<u>0.26</u>	<u>—</u>

SUMMARY OF STATEMENT OF FINANCIAL POSITION

	As of December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Assets				
Cash and balances with				
Bank of Mongolia	694,954.4	1,142,404.1	1,717,584.8	503.6
Mandatory cash balances with the				
Bank of Mongolia	277,343.5	357,582.0	468,930.0	137.5
Reverse sale and repurchase agreement . . .	—	—	646,836.0	189.6
Due from other banks	1,056,447.5	1,566,963.4	1,403,654.3	411.5
Investments in debt securities	1,979,439.9	1,230,251.0	1,733,092.6	508.1
Investments in equity securities	18,472.7	22,513.5	24,082.8	7.1
Loans and advances to customers	3,339,174.8	3,697,633.3	4,712,108.7	1,381.6
Assets classified as held for sale	74,084.5	6,687.6	29,101.7	8.5
Investment properties	17,427.6	10,276.5	6,586.5	1.9
Other assets	39,972.4	283,402.1	489,826.7	143.6
Deferred income tax assets	—	—	6,916.3	2.0
Derivative financial assets	208,917.1	436,146.1	202,386.9	59.3
Intangible assets	17,848.7	20,948.4	18,878.6	5.5
Premises and equipment	150,019.3	151,367.6	151,083.0	44.3
Right of use assets	13,001.1	15,192.6	16,775.3	4.9
Reposessed collateral	106,953.2	43,191.3	—	—
Total assets	<u>7,994,056.8</u>	<u>8,984,559.5</u>	<u>11,627,844.2</u>	<u>3,409.2</u>
Liabilities				
Due to other banks	16,782.5	52,394.8	130,991.9	38.4
Customer accounts	5,463,543.4	5,743,297.9	8,036,633.7	2,356.3
Other borrowed funds	1,509,446.0	1,916,312.1	1,410,928.7	413.7
REPO arrangements	221,912.1	211,347.6	711,674.2	208.7
Current income tax liability	29,389.9	30,961.4	42,008.6	12.3
Deferred income tax liability	9,484.6	20,743.3	—	—
Derivative financial liabilities	—	—	2,890.9	0.8
Lease liabilities	14,001.7	16,290.5	17,390.4	5.1
Other liabilities	70,834.4	131,306.2	204,235.2	59.9
Total liabilities	<u>7,335,394.7</u>	<u>8,122,653.8</u>	<u>10,556,753.5</u>	<u>3,095.2</u>
Equity				
Preferred shares	16,388.1	—	—	—
Share capital	168,638.1	202,164.3	202,164.3	59.3
Share premium	169,486.0	301,481.1	301,481.1	88.4
Retained earnings	242,436.1	283,420.8	460,718.1	135.1
Other reserves	61,713.7	74,839.5	106,727.2	31.3
Total equity	<u>658,662.0</u>	<u>861,905.7</u>	<u>1,071,090.7</u>	<u>314.0</u>
Total liabilities and equity	<u>7,994,056.8</u>	<u>8,984,559.5</u>	<u>11,627,844.2</u>	<u>3,409.2</u>

SUMMARY OF STATEMENT OF CASH FLOWS

	For the year ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Net cash (used in)/from operating activities	33,153.1	(208,832.0)	1,316,553.3	386.0
Net cash (used in) investing activities	(92,009.4)	(364,400.9)	(650,747.5)	(190.8)
Net cash from financing activities	539,254.7	329,141.8	83,969.9	24.6
Effect of exchange rate changes on cash and cash equivalents	7,540.3	84,779.7	(40,553.0)	(11.9)
Net (decrease)/increase in cash and cash equivalent	487,938.7	(159,311.4)	709,222.8	207.9
Cash and cash equivalents at the beginning of the period	1,946,787.2	2,434,725.9	2,275,414.5	667.1
Cash and cash equivalents at the end of the period	<u>2,434,725.9</u>	<u>2,275,414.5</u>	<u>2,984,637.3</u>	<u>875.1</u>

OTHER SELECTED FINANCIAL DATA

This summary includes certain data which we consider to constitute alternative performance measures (“APMs”), such as ROAE, ROAA, LDR, net interest margin, etc. APMs are not defined by, or presented in accordance with, IFRS. APMs are unaudited and are not measurements of our operating performance liquidity or financial condition under IFRS and should not be considered as alternatives to any measures of performance liquidity or financial condition under IFRS. We believe that APMs provide useful information to investors for the purposes of evaluating our financial condition and results of operations, the quality of our assets and the fundamentals of our business. However, our use and method of calculation of APMs may vary from other companies’ use and calculation of such measures.

In particular:

- a) the APMs that we present are aimed at quantifying certain aspects of our business and our strengths within the context of the Mongolia banking system;*
- b) APMs, although not required by law in the preparation of financial statements, allow for comparisons with other banks, over different periods of time and between us and the average industry standards; and*
- c) APMs represent the way management measures the business on a regular basis.*

	As of December 31,		
	2021	2022	2023
Return on average equity (“ROAE”)(%)(¹)	5.1%	19.5%	24.1%
Return on average assets (“ROAA”)(%)(²)	0.3%	1.4%	2.2%
Loan-to-deposit ratio (“LDR”)(³)	64.1%	67.8%	60.7%
Net Interest Margin (%)(⁴)	4.6%	5.9%	6.5%
Cost Income Ratio (including swap impact) (%)(⁵) . . .	41.5%	33.3%	44.1%
Cost Income Ratio (excluding swap impact)%(⁶)	38.9%	35.6%	34.1%
Non-performing loan (“NPL”) ratio(⁷)	7.6%	6.9%	5.0%
Non-performing loan coverage ratio(⁸)	72.5%	96.4%	106.2%
Capital Adequacy Ratio > 12%(⁹)	15.4%	17.9%	15.9%
Core Capital Ratio > 13%(¹⁰)	15.0%	17.9%	15.9%
Liquidity Ratio > 25%(¹¹)	41.3%	36.3%	38.3%

(1) Calculated as the ratio of profit after tax to average total equity. The figure for average total equity is an average of the balance sheet equity for each day of the relevant financial period.

(2) Calculated as the ratio of profit after tax to average total assets. The figure for average total assets is an average of the statements of financial position total assets for each day of the relevant financial period.

(3) Calculated as the ratio of total gross loans to total customer accounts.

(4) Calculated as the ratio of net interest income (excluding interest income from cash deposited in the Bank of Mongolia) to average interest-earning assets. The figure for average interest-earning assets is an average of the balance sheet interest-bearing assets for each day of the relevant financial period.

(5) Calculated as the ratio of operating expenses (i.e. administrative and other operating expenses) to net operating income (calculated as a sum of net interest income and non-interest income), including swap impact (which represented loss less gains from financial derivatives) for each period presented.

(6) Calculated as the ratio of operating expenses (i.e., administrative and other operating expenses) to net operating income (calculated as a sum of net interest income and non-interest income), excluding swap impact (which represented loss less gains from financial derivatives) for each period presented.

(7) Calculated as the ratio of our total non-performing loans based on the Bank of Mongolia report to total loans.

(8) Calculated as the ratio of allowances for probable loan losses to non-performing loans based on the Bank of Mongolia report.

- (9) Calculated as the ratio of our total tier I capital (including common stock, retained earnings, profit of current year, treasury stock and certain adjustments) and tier II capital (including preferred stock, revaluation fund, subordinated debt and certain adjustments) to a bank's total risk weighted assets (including its total assets, off-balance sheet assets and foreign currency risk). The Bank of Mongolia has established a minimum capital adequacy ratio for Mongolian banks. As of December 31, 2023, this ratio was set at 12.0% by the Bank of Mongolia.
- (10) Calculated as the ratio of a bank's total tier I capital (including common stock, retained earnings, profit of current year, treasury stock and certain adjustments) to the bank's total risk weighted assets (including total assets, off-balance sheet assets and foreign currency risk). The Bank of Mongolia required a minimum tier I core capital ratio of 13% including the 4% buffer.
- (11) Calculated as the ratio of a bank's liquid assets (including cash on hand, deposits and placements with banks and other financial institutions, balances with the Bank of Mongolia, investment securities and clearing delay account) to the bank's liabilities (including deposits from customers, deposits and placements of banks and other financial institutions, loans from foreign financial institutions, taxation, clearing delay account, medium-term notes and other liabilities). The minimum liquidity ratio applicable to all commercial banks in Mongolia as required by the Bank of Mongolia is 25.0%.

LETTER OF SUPPORT FROM THE BANK OF MONGOLIA

The Bank of Mongolia has issued a letter of support in connection with the Offering (the “BoM Letter of Support”). This section sets out the full text of the BoM Letter of Support.

Disclaimer: The BoM Letter of Support does not represent a guarantee or a legally binding obligation of the Bank of Mongolia in relation to the Notes or the Offering. See “Risk Factors — Risks Relating to the Notes — The Letter of Support is not a guarantee and does not contain any legally binding obligations of the Bank of Mongolia in relation to the Notes.”

[LETTERHEAD OF THE BANK OF MONGOLIA]

ATTENTION TO: Golomt Bank

Date: April 8, 2024 Ref. No.: 1/99

Letter of support

We hereby notify you of our support in connection with the Issuer’s proposed issue of up to US\$300 million senior notes repayable in 3-5 years.

The Bank of Mongolia considers Golomt bank is of key importance to the financial sector due to its designation as a domestic systemically important bank.

We confirm that the Golomt bank is fully compliant with all prudential requirements set by the Bank of Mongolia, as well as all other requirements delineated in the Banking Law. With the proceeds of the notes, the Bank is eligible to request a long-term swap agreement with the Bank of Mongolia.

This letter shall not be construed or be deemed to constitute any guarantee by or obligations or responsibilities of the Bank of Mongolia for any liabilities to any other person in connection with the Notes to be issued by the Issuer and shall not create any right to claim.

Sincerely,

[SIGNATURE]

LKHAGVASUREN BYADRAN

Governor

RISK FACTORS

An investment in the Notes involves risks. Prospective purchasers of the Notes should carefully consider all of the information in this Offering Memorandum and, in particular, the risks described below, prior to making an investment decision with respect to the Notes. The risks described below are not the only ones that may affect us or the Notes. In general, investing in securities of issuers in developing countries such as Mongolia involves risks not typically associated with investing in the securities of companies in more developed economies. To the extent the description below relates to the Government or Mongolian macroeconomic data, such information has been extracted from official Government publications or other third-party sources and has not been independently verified by us or the Initial Purchasers.

Risks Relating to Our Business and Industry

If we are unable to effectively maintain the quality of our loan portfolio, our business, financial condition and results of operations may be materially and adversely affected

Any lending activity is exposed to credit risk arising from the risk of default by borrowers. Our total loans and advances to customers increased from MNT3,339,174.8 million as of December 31, 2021 to MNT3,697,633.3 million as of December 31, 2022, and further increased to MNT4,712,108.7 million (US\$1,381.6 million) as of December 31, 2023. As of December 31, 2021, 2022 and 2023, our non-performing loan ratios were 7.6%, 6.9% and 5.0%, respectively. A number of factors affect our ability to monitor, control and reduce non-performing loans. Some of these factors, including macroeconomic developments in the Mongolian economy, movements in global commodity markets, global competition, interest rates, exchange rates and outbreak of disasters or major accidents in Mongolia or other regions, are not within our control. All of these may adversely affect the businesses, operations, or liquidity of our customers, counterparties or ultimate financing parties of our business, as a result of which, we may not be able to realize the value of relevant collateral, or guarantees securing its assets. For example, falling commodity prices, slower GDP growth, fluctuating levels of foreign direct investment and depreciation of the Tugrik against foreign currencies may cause certain customers to experience difficulties repaying their loans in foreign currencies, leading to an increase in our non-performing loan ratio.

We have adopted measures to control our risk exposure to our loan portfolio, including implementing credit exposure limits on our loans to customers and strengthening our credit monitoring mechanism. See “Business — Risk Management” and Note 38 to our financial statement as of and for the year ended December 31, 2023. We cannot assure you that these measures will always be sufficient to mitigate risks associated with non-performing loans or that the overall quality of our loan portfolio will not deteriorate in the future. Any significant deterioration in our asset quality may lead to significant increase in our non-performing loans, credit loss allowance and write-off due to impairment, which may materially and adversely affect our business, financial condition and results of operations. If we are not able to control the absolute levels, as well as the percentage relative to our total loan portfolio, of non-performing loans, or if there is a significant increase in our restructured loans, our business, financial condition and results of operations could be materially and adversely affected.

Our allowances for doubtful accounts may prove inadequate

Our non-performing loans represented 7.6%, 6.9% and 5.0% of our total loans as of December 31, 2021, 2022 and 2023, respectively. Our charge of expected credit loss in 2021 and 2022 was MNT35,770.5 million and MNT45,969.5 million, respectively, and our reversal of expected credit loss in 2023 was MNT28,074.7 million (US\$8.2 million), respectively. The amount of our credit loss allowance is based on our assessment of various factors affecting the quality of our loan portfolio. These factors include our borrowers’ operational and financial condition, their repayment ability and intention and macroeconomic factors. Many of these factors are beyond our control, and therefore our assessment of, and expectations for, these factors may differ from their future development. We cannot assure you that we will not be required to make significant additional allowances for doubtful accounts in future periods if we experience higher than anticipated loan defaults and delinquencies due to increased credit losses resulting from, among other things, ineffective collection management, discrete events adversely affecting specific customers or businesses or adverse changes in the economy, which could in turn materially and adversely affect our business, financial condition and results of operations.

We operate in Mongolia, where credit risks and counterparty exposure experienced by banks may be greater than in more developed countries

Our principal business includes lending to or deposits from our Mongolia-based customers. Therefore, our continued growth depends to a large extent to the continued growth of the Mongolian economy. We are subject to the credit risk of our borrowers, who may not pay interest or repay principal on their loans in a timely fashion or at all. The credit risk of our borrowers may be higher than in more developed countries primarily due to (i) the perceived greater uncertainty in the Mongolian regulatory, political, economic and industrial environment, (ii) the level of foreign debt of the Government and Mongolian companies relative to Mongolia's GDP and (iii) the volatility of interest rates and Tugriks to U.S. dollar exchange rates. Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Mongolian banks, including us, to potential losses and risks that may be higher than for banks operating in more developed countries. Such losses, if material, would have a material adverse effect on our business, financial condition and results of operations.

Economic difficulties in Mongolia that have a material adverse effect on Mongolian consumers could result in reduced growth and deterioration in the credit quality of our personal loan portfolio. For example, a rise in unemployment, an increase in interest rates in Mongolia or inflationary pressures could have a material adverse impact on the ability of borrowers to make timely payments of interest or repayment of principal on their loans and could increase the likelihood of defaults, while reducing overall demand for personal loans. In addition, the number of loan accounts may be negatively affected by declines in household income, public concerns about unemployment or other adverse macroeconomic factors.

Increased competition arising from economic liberalization in Mongolia, variable industrial growth, volatile prices of Mongolia's exports, the high level of debt in the financing of projects and capital structures of companies in Mongolia and high interest rates in Mongolia may reduce the profitability of some of our customers, thereby increasing the credit risk associated with loans we extend to such customers. Additionally, any adverse change in the economic development of or any significant natural disaster or catastrophic event occurring in Mongolia, or any material adverse change in the financial condition of our customers in Mongolia could cause instability for the banking sector, thereby increasing our credit risks.

Competition in the Mongolian banking industry is intense, and our growth strategy depends in part on our ability to compete effectively

We are subject to significant levels of competition in all areas of our business from a number of other Mongolian banks, and non-bank finance institutions, including competitors which, in some geographical areas and areas of business, have a greater market share and greater name recognition than us. As of December 31, 2023, the Mongolian financial sector comprised 12 commercial banks, 11 of which were privately owned and one was state-owned. Moreover, in Mongolia, the number of fintech based non-bank financial institutions has increased significantly in recent years. The competition between banks, financial firms and fintech companies is becoming increasingly fiercer. Although non-bank financial institutions have relatively smaller market share, they may pose a threat to commercial banks, and even market leaders like us. In the future, we may face increased competition from other financial institutions offering a wider range of commercial banking services, including those that are digitally based and that have larger lending limits, greater financial resources and stronger balance sheets. Increased competition may arise from:

- other large Mongolian banking and financial institutions with significant presence in Ulaanbaatar and large country-wide branch networks;
- our inability to open more branches and to provide banking and financial services if the Bank of Mongolia and the FRC do not provide the required approvals;
- foreign banks, due to, among other things, relaxed standards permitting large foreign banks to open branch offices or to invest in other domestic banks that have extensive branch networks;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources;

- emerging non-bank financial institutions increasing their market shares through innovation and accelerating the transition to digital business models, which may undermine our market leading position;
- consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions; and
- fintech based non-bank financial institutions that provide superior digital solutions with respect to consumer lending, payments, currency trading and other e-services.

We cannot assure you that we will be able to compete effectively or at all in the face of such increased competition.

Our funding is primarily short-term and depositors may not roll-over deposited funds upon maturity

We receive a significant portion of our funding from deposits from our corporate and retail customers and our deposit funding represents one of our lowest-cost funding channels. Our funding needs are satisfied from short-term sources, primarily in the form of customer deposits. As of December 31, 2023, 98.56% of our total deposits from customers were due within one year, or were payable on demand. Such deposits may not continue to be a stable source of funding for us. In the event we cannot attract or retain sufficient deposits or if a substantial number of our depositors withdraw their demand deposits or do not roll-over their term deposits upon maturity, our ability to meet capital and other liquidity requirements could be adversely affected and we may be unable to fund our loan growth and may be required to seek alternative sources of short-term or long-term funding. We cannot assure you as to the availability of such funding or the terms of such funding. To the extent we are unable to obtain sufficient funding on acceptable terms or at all, our business, financial condition and results of operations may be materially and adversely affected. In addition, if the amount of our loans were to increase in excess of the increase in our deposits, the loans to deposits ratio could rise and this could have a material adverse effect on our liquidity position and hence our ability to make payments under the Notes.

Increasing scrutiny and changing expectations from investors, lenders and other market participants with respect to our Environmental, Social and Governance (“ESG”) policies may impose additional costs on us or expose us to additional risks

Companies across all industries are facing increasing scrutiny relating to their ESG policies. Investor advocacy groups, certain institutional investors, investment funds, lenders and other market participants are increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. The increased focus and activism related to ESG and similar matters may hinder access to capital, as investors and lenders may decide to reallocate capital or to not commit capital as a result of their assessment of a company’s ESG practices. Companies which do not adapt to or comply with investor, lender or other industry shareholder expectations and standards, which are evolving, or which are perceived to have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, may suffer from reputational damage, have more limited access to capital and their business, financial condition, could be materially and adversely affected.

We may face increasing pressures from investors, lenders and other market participants, who are increasingly focused on climate change. The global transition to a lower carbon economy could have an adverse impact on valuations of our customers in the mining and quarrying and energy sectors as the financial assets of carbon-intensive companies re-price and could result in some asset sectors facing significantly higher costs and a disorderly adjustment to their asset values. This may adversely impact the credit quality of our borrowers in carbon-intensive industries, such as mining and quarrying, which could materially and adversely affect the overall quality of our loan portfolio. As of December 31, 2023, 4.01% of our loan portfolio is concentrated in the mining and quarrying sector. Social risks that could impact us may arise from a failure to consider the rights, diversity, well-being, and interests of people and communities in which we, or our third parties, operates. A failure to maintain high standards of corporate

governance may adversely impact us and our customers, staff and employees, through poor decision-making and a lack of oversight of our key risks. Poor governance may arise where key governance committees have insufficient independence, a lack of diversity, skills or experience in their members, or unclear (or insufficient) oversight responsibilities and mandates.

We may be required to implement more stringent ESG procedures or standards so that our existing and future investors and lenders remain invested in us and make further investments in us. If we are unable to access the capital or loan markets or alternative means of financing on acceptable terms, or at all, we may be unable to implement our business strategy, which would have a material adverse effect on our financial condition and results of operations and impair our ability to service our indebtedness. Further, it is likely that we will incur additional costs and require additional resources to monitor, report and comply with wide ranging ESG requirements. The occurrence of any of the foregoing could have a material adverse effect on our business and financial condition.

We may be unable to obtain sufficient external financing to support our operations or to grow our business

We require a substantial amount of cash for our operations, including for the extension of credit to our customers through our principal lending activities and for the expansion of certain business segments. To satisfy our liquidity and other funding requirements, we may need to issue additional equity or debt securities in the Mongolian or international capital markets or otherwise incur additional borrowings. In addition, as part of our efforts to reduce funding costs and establish a stable capital structure, we intend to continue to maintain diverse sources of funding, which includes the reduction of our reliance on short-term borrowings. Our ability to rely on alternative sources of funding will depend on our financial position and the liquidity of the Mongolian and international capital markets as well as the Government's policies regarding domestic and foreign currency borrowings. Our failure to obtain sufficient financing on commercially reasonable terms or at all could delay or limit our ability to pursue our business expansion and diversification strategies, which could materially and adversely affect our business, financial condition and results of operations.

We are required by the Bank of Mongolia to maintain minimum levels of capital and liquidity

We are required by the Bank of Mongolia to maintain a minimum liquidity ratio of 25.0% and a minimum capital adequacy ratio of 12.0%. As of December 31, 2023, the minimum capital adequacy ratio for systemically important banks was 13.0% for Tier I capital ratio and 12.0% for the total capital, complied based on total Tier-1 capital and total assets as adjusted for their risk by regulation of Bank of Mongolia. Our liquidity ratio is calculated as the ratio of our liquid assets (for example, cash on hand and deposits and placements with banks and other financial institutions) to our liabilities (for example, deposits from customers and deposits and placements of banks and other financial institutions). Our capital adequacy ratio is calculated as the ratio of our total Tier I capital (for example, common stock and retained earnings) and Tier II capital (for example, preferred stock and subordinated debt) to our total risk weighted assets (including our total assets, off-balance sheet assets and foreign currency risk). Our liquidity ratio was 41.3%, 36.3% and 38.3% as of December 31, 2021, 2022 and 2023, respectively. Our capital adequacy ratio was 15.4%, 17.9% and 15.9% as of December 31, 2021, 2022 and 2023, respectively.

Our ability to support and grow our business would be limited by a declining liquidity ratio or capital adequacy ratio. Regulatory requirements regarding our liquidity ratio or capital adequacy ratio may also become more stringent as the Mongolian economy recovers from the adverse impact of the COVID-19 pandemic. In addition, if we fail to maintain the required minimum liquidity or capital adequacy ratios, the Bank of Mongolia may impose penalties or revoke our banking license. No assurance can be given that our financial condition and other sources of capital will be sufficient to keep our liquidity and capital adequacy ratios above the minimum required amounts.

Our reputation may be adversely affected by the legal proceedings involving one of our shareholders and former director, Mr. Urs Ernst Schwarzenbach

Our shareholder who holds 5.16% equity interest in us and was a former director of the Bank, Mr. Urs E. Schwarzenbach, has faced and is currently facing several tax-related legal proceedings in Switzerland. In 2012, the Federal Custom Authorities in Switzerland initiated proceedings against Mr. Schwarzenbach for unpaid custom duties, non-declarations and false declarations related to artworks imported by Mr. Schwarzenbach into Switzerland. These administrative customs proceedings have concluded and Mr. Schwarzenbach has settled all outstanding custom claims, including costs and fines. Mr. Schwarzenbach also is facing several on-going administrative criminal proceedings in relation to artworks imported into Switzerland. The first claim involves charges of non-declaration and false declaration whereby Mr. Schwarzenbach was initially fined CHF 4 million by the Bülach District Court for VAT evasion in May 2018, subsequently reduced on appeal to CHF3.1 million in August 2022. As of the date of this Offering Memorandum, the Federal Supreme Court in Switzerland is reviewing the case and a decision is expected to be reached in the coming months and no final judgement has been rendered. Additionally, Mr. Schwarzenbach was charged with unjustified use of transfer and the High Court of the Canton of Zurich imposed a CHF7,070,000 fine which is currently under review by the Federal Supreme Court in Switzerland. As of the date of this Offering Memorandum, no final ruling has been reached on this matter. Finally, two tax offices (City and Canton of Zurich) have six claims for income and property tax violations against Mr. Schwarzenbach in relation to income and property taxes, each currently undergoing legal proceedings relating to these matters. As of the date of this Offering Memorandum, we are not aware of existence of any criminal court decisions or convictions against Mr. Schwarzenbach.

Our business reputation is crucial to our success. Mongolia's banking industry continues to be covered extensively and critically by various news media. In recent years, incidents of fraud, corruption, and issues in relation to internal controls, and risk management have been extensively reported by the media. The media coverage of the cases relating to Mr. Schwarzenbach, may have an adverse impact on us. Any negative media coverage about our industry or us, whether accurate or not, may have an adverse effect on our reputation and will consequently undermine our customers' confidence. As a result, our business, financial condition, results of operations, prospects and the value of your investment may be materially and adversely affected. Furthermore, to the extent the pending cases against Mr. Schwarzenbach are ruled against him, and he is found guilty, he may be required under Mongolian Banking Law to dispose some of his shares in the Bank. See "Regulatory Overview — Banking Related Laws — Banking Law of Mongolia." Our reputation may be affected under these circumstances.

We may be involved in legal and other disputes from time to time arising out of our operations

We may be involved in legal and other disputes from time to time for a variety of reasons, which are generally for loan collection purposes or other claims arising out of our ordinary daily operations. We cannot guarantee that the outcome in any of the litigation in which we are involved would be favorable to us, or that the judgment in relation to the rejected litigation against us will not be subject to disputes resulting in new litigation, appeal or retrial. In addition, we cannot guarantee that any existing or potential investigations against us, our shareholders or our management will not have a material adverse effect on us, or that any future legal disputes we may confront will not result in damage to our reputation, additional operational costs and a diversion of resources and management's attention from our business operations, in which case our business, financial condition and results of operations may be adversely affected.

Our risk management policies and procedures may not adequately protect us against credit, market, operational, liquidity and other risks

We are exposed to a variety of risks, including credit risk, market risk, currency risk, interest rate risk, operational risk and liquidity risk. In recent years, we have undertaken various initiatives to strengthen our risk management capabilities, including improving our internal credit-approving mechanisms and upgrading our information technology systems. Although we have established risk management policies and procedures, the effectiveness of our risk management is limited by the quality, amount and timeliness of available data in Mongolia in relation to factors such as the credit history of proposed borrowers and

the loan exposure borrowers have with other financial institutions. As such, we cannot assure you that any of our risk management policies or procedures will be fully effective. Some methods of managing risks are based upon observed historical market behavior. As a result, we may not be able to accurately or in a timely fashion predict future risk exposures, which could be greater than the historical measures indicated. In addition, the information generated by different groups within our organization may be incomplete or obsolete. Management of operational, legal or regulatory risk requires policies and procedures to properly record and verify a large number of transactions and events. Other risk management methods depend upon an evaluation of information regarding markets, customers and other factors. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Parts of our risk management framework are new and subject to continuous testing and improvement. We cannot assure you that these policies and procedures will operate in the way that we anticipate or that such policies and procedures will be adequate to identify and manage risks as intended. If we are unable to effectively improve our risk management and internal control policies, procedures or systems in a timely manner, our asset quality, business, financial condition and results of operations could be materially and adversely affected.

Failure to implement and maintain an effective system of financial reporting and internal controls may materially and adversely affect our ability to accurately or timely prepare financial information

Our internal controls over financial reporting are intended to ensure that we maintain accurate records, promote the accurate and timely reporting of our financial information, maintain adequate control over our assets, and detect unauthorized acquisition, use or disposition of our assets. Effective internal and disclosure controls are necessary for the Bank to provide reliable financial reports and to operate successfully as a business. Our management is responsible for establishing and maintaining adequate internal controls. We identified that certain disclosures were not correctly presented in the published financial statements for 2022 and 2023. See note 38.6 to the financial statements for 2022 and 2023 included elsewhere in this Offering Memorandum. As a result, this Offering Memorandum contains restated financial statements and audit opinions issued on such financial statements contain additional explanations. If our financial and reporting procedures and internal controls do not keep pace with our growth and the applicable financial reporting framework, we may not be able to prepare financial information in a timely and accurate manner, whether in accordance with the terms of the Notes or otherwise. This includes the implementation of internal controls by management to ensure that our financial statements are prepared in accordance with IFRS or other applicable financial reporting standards. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with IFRS. A failure by the Bank to implement and maintain effective internal controls, could result in material misstatements in its financial statements or failure to prepare interim and/or annual financial information in a timely manner, which may cause a need to restate financial statements or result in a loss of confidence in its reported financial information, which in turn and could have a negative impact on the Bank's compliance with the terms of the Notes, access to external financing, and potentially its business and results of operations.

We may not be able to successfully implement our product expansion and business diversification strategies

We will continue to expand the range of our products and services in the future. Expansion of our business activities to offer new financial products and services as well as investing in developing our digital platform and fintech products and e-services exposes us to a number of risks and challenges, including, among others, the following:

- new business activities may require greater marketing and compliance costs than our traditional services;
- new business activities may have lower growth or profit potential than we anticipate, and we cannot assure you that new business activities will become profitable at the level we forecast or at all;
- we may fail to identify and offer attractive new services in a timely fashion;

- our competitors may have substantially greater experience and resources for the new business activities we wish to commence, particularly the number of fintech based non-bank financial institutions in Mongolia has increased significantly in recent years, and we may not be able to attract customers from our competitors;
- we may need to hire or retrain personnel to conduct and supervise new business activities;
- we may need to enhance our information technology capabilities and actively cooperate with fintech and digital developers to introduce digital solutions and support a broader range of activities; and
- general economic conditions in Mongolia and worldwide, such as rising interest rates or housing prices, could hinder our expansion into the personal loan and mortgage industries.

New business endeavors may require experience, knowledge and expertise which differ from those used in our current business operations, including different management skills, risk management procedures, guidelines and systems, credit appraisal, monitoring and recovery systems. We may not be successful in developing such knowledge and expertise. In particular, the COVID-19 pandemic has accelerated trends in customer behavior towards online and mobile banking products, which presents challenges to market leaders like us. In addition, managing such growth and expansion requires significant managerial and operational resources and the number of qualified managerial personnel in Mongolia may be limited. Our inability to implement our product expansion and business diversification strategies could have a material adverse effect on our business, financial condition and results of operations.

Our controlling shareholder and related parties may exercise influence over certain of our affairs and may have interests which differ from ours and our reputation may be adversely affected by the previous legal proceedings involving Mr. Bayasgalan Danzandorj

As of the date of this Offering Memorandum, Mr. Bayasgalan Danzandorj, our founder and controlling shareholder, holds a 81.8% equity interest in us through his ownership interests in Golomt Financial Group LLC, Bodi International LLC and Golomt Investment Limited. See “Principal Shareholders.” He is therefore able to exert significant influence on our strategic direction, business and operations and direct the outcome of corporate actions requiring shareholders’ approval, including the election of directors, the amendment of our articles of associations, the amount and timing of dividends and other distributions and other significant corporate actions. The strategic goals and interests of Mr. Bayasgalan Danzandorj may not be aligned with our strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. In addition, in the normal course of business, we enter into transactions with entities under common control, which are companies controlled by Golomt Financial Group LLC and other companies over which Mr. Bayasgalan Danzandorj, has control or significant influence. See “Related Party Transactions.” We cannot assure you that Mr. Bayasgalan Danzandorj will exercise influence over us in a manner that is in our best interests and those of our other shareholders and creditors, including holders of the Notes.

In addition, our reputation may be adversely affected by the previous legal proceedings involving Mr. Bayasgalan Danzandorj. In January 2019, Mr. Bayasgalan Danzandorj, our founder and controlling shareholder, was investigated as an accomplice in a corruption and bribery case against former prosecutor-general Mr. D. Dorligjav, who was accused of receiving an improper payment US\$4 million. On July 10, 2020, this investigation involving Mr. Bayasgalan Danzandorj was concluded on the grounds of absence of statutory criminal offence. Any negative media coverage about our industry or us, whether accurate or not, may have a material adverse effect on our reputation and will consequently undermine our customers’ confidence. As a result, our business, financial condition, results of operations, prospects and the value of your investment may be materially and adversely affected.

The value of our collateral may be overstated and may decline in the future

A substantial portion of our loans were secured by mortgages, pledges and guarantees. We generally accept collateral, including cash or cash equivalent, gold, land, real estate, machinery, stock, receivables and other assets. The value of the collateral securing our loans may fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting the Mongolian economy. We cannot assure you that the realized value of the collateral would be adequate to cover our loans. An economic downturn or inflationary pressures could result in a fall in our relevant collateral values. In particular, a downturn in the real estate market may result in the principal amount of certain loans exceeding the value of the underlying real estate collateral. Our collateral may be over-valued and not accurately reflect our liquidation value, which is the maximum amount we are likely to recover from a sale of collateral, less expenses of such sale. In addition, some of the valuations in respect of the collateral may be outdated or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, such collateral may be worthless.

Any decline in the value of the collateral securing our loans, including with respect to any future collateral we take, would mean that our loan loss provisions may be inadequate and require an increase in such provisions. We cannot assure you that the collateral securing any particular loan will protect us from suffering a partial or complete loss if the loan becomes non-performing. Any increase in our provisions would adversely affect our capital adequacy ratio and otherwise adversely affect our business, financial condition and results of operations.

We may experience delays in enforcing our collateral when our borrowers default on their obligations to us

Mongolian banks may not be able to fully recover amounts owed to them through enforcement of collateral or guarantees, as a result of, among other factors, the legal uncertainties in enforcing such rights, delays in bankruptcy and foreclosure proceedings, inability to perfect security interests for certain types of collateral, defects in the perfection of certain types of collateral and fraudulent transfers by borrowers. Bankruptcy laws and enforcement procedures in Mongolia are less developed than those in certain other countries, including the United States, and the enforcement process in Mongolia may be comparatively lengthy. As a result, a bank may require several years to enforce and realize the value of collateral underlying non-performing loans, and a particular loan may be classified as non-performing for several years before collateral can be seized and liquidated. During such period, the physical condition and market value of the collateral can deteriorate, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be adequately insured or insured at all.

In the past, these factors have exposed, and continue to expose, lenders in Mongolia to legal liability while in possession of collateral. The current difficulty of bringing enforcement actions under the Mongolian legal system significantly reduces the ability of lenders to realize the value of collateral located in Mongolia and therefore the effectiveness of taking a secured position on loans to Mongolian borrowers. We cannot assure you that we will be able to realize the full value, or any value, of any collateral located in Mongolia in a bankruptcy or foreclosure proceeding or otherwise. In addition, we may incur significant administrative costs in maintaining and disposing of seized properties. A failure to recover the expected value of collateral security could expose us to a potential loss. Any unexpected losses could adversely affect our business, financial condition and results of operations.

We have contingent liabilities and commitments not stated on our statements of financial position

Similar to other banks and financial institutions, we enter into various irrevocable commitments and contingent liabilities in the ordinary course of business to meet the financial needs of our customers. Even though these obligations are not recognized on the statement of our financial position, they do contain credit risk. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that we 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized 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 authorizations to extend credit in the form of loans, guarantees or letters of credit, and therefore expose the Bank to loss in an amount equal to the total unused commitments.

In connection with the reissuance of our audited financial statements as of and for the years ended December 31, 2022 and 2023 as described in “Financial Data” at the forefront of this Offering Memorandum, the Bank identified an error in the allocation of credit related commitments (among other items) into respective time buckets in the maturity analysis of financial instruments. Specifically, the previously reported financial statements allocated credit related commitments on the basis of discounted contractual obligations based on expected credit loss, whereas the reissued financial statements, in accordance with IFRS, allocate credit related commitments on the basis of undiscounted contractual obligations. See Notes 38.5.3 and 38.5.4 to our financial statement as of and for the year ended December 31, 2023.

As of December 31, 2023, our total credit related commitments (restated) were MNT1,343,698.9 million (US\$394.0 million), comprising financial guarantee issued, performance guarantees issued, letters of credit and undrawn credit lines. These commitments and contingent liabilities have off-balance sheet credit risk for which provisions are not currently made in the Bank’s audited financial statements included elsewhere in this Offering Memorandum (except to the extent recognized as a component of “Other Liabilities” in the statement of financial position). If our contingent liabilities and credit related commitments become due earlier or in an amount greater than the Bank expects, the Bank may encounter difficulty in meeting obligations associated with its financial liabilities or meet its capital adequacy and liquidity ratio requirements in accordance with the regulations of Bank of Mongolia, which could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to exchange rate risk and interest rate risk

As a financial institution, we are exposed to exchange rate risk. Movements in foreign exchange rates may materially and adversely impact our borrowers, which may in turn adversely impact the nature of our exposure to these borrowers. Volatility in foreign exchange rates could materially and adversely affect our ability to meet our obligations under the Notes and our business, financial condition and results of operations. A significant portion of our loan portfolio is denominated in U.S. dollars. The Tugrik has fluctuated against the U.S. dollar for recent years. As of December 31, 2021, 2022 and 2023, the Tugrik to U.S. dollar exchange rate was MNT2,848.80 to US\$1.00, MNT3,444.60 to US\$1.00, and MNT3,410.69 to US\$1.00, respectively. While the Government has taken, or may take, measures, including raising the policy rate, in response to the Tugrik’s depreciation, if the Tugrik depreciates significantly at any time when we have a significant net open borrowing position denominated in foreign currencies, such depreciation could cause us to suffer losses, reduce our capital adequacy ratio and require us to seek additional capital or breach capital adequacy regulations set by the Bank of Mongolia. We may be subject to higher credit risk of our borrowers, who may not pay interest or repay principal on their loans in a timely fashion or at all due to the volatility of Tugriks to U.S. dollar exchange rates. Higher credit risk has a material adverse effect on the quality of our loan portfolios and exposes us to potential losses. We cannot assure you that any additional required capital would be available on acceptable terms or at all.

We realize income from the margin, or “spread,” between interest-bearing assets, such as investments and loans, and interest paid on interest-bearing liabilities, such as deposits and borrowings. The performance of Mongolian banks, including our performance, is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations, cash flow and financial condition of Mongolian banks, including us. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. As of December 31, 2023, we recorded a MNT63,982.6 million (US\$18.8 million) net balance sheet position between our assets and liabilities in the U.S. dollars. We are 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. Interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions. Although we manage interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk, we cannot assure you that any of these measures will adequately protect us against interest rate risks. In a rising interest rate environment, if we are not able to pass along our higher interest expenses to customers with loans with us in the form of higher interest rates for such loans, our profitability would be materially and adversely affected. If such increased costs are passed along to customers, such increased rates may make loans less attractive to potential customers and result in a reduction in customer volume and hence our operating revenues may be materially and adversely affected. In a decreasing interest rate environment, potential competitors may find it easier to enter the markets in which we operate and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on our margins and volumes and in turn result in an adverse effect on our business, financial condition and results of operations.

We cannot assure you of the accuracy of facts, forecasts and statistics derived from official government publications contained in this Offering Memorandum with respect to Mongolia, its economy or its banking industry

Facts, forecasts and statistics in this Offering Memorandum relating to Mongolia, the Mongolian economy and its banking industry, are derived from various governmental sources and information published by various government authorities, such as Bank of Mongolia, National Statistical Office of Mongolia or other public sources. We believe these sources of information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading. Such information has not been independently verified by us, and no representation is given as to its accuracy. In addition, these facts, forecasts and statistics may not be consistent with information available from other sources, and may not be complete or up to date. As a result, you should not place undue reliance on such information.

We rely on certain key personnel and may not be able to recruit or retain a sufficient number of qualified staff

Our continued success depends upon the continuing service of our directors and members of our senior management, who have been instrumental in our success, and upon our ability to attract and retain other highly capable individuals. If we lose the services of any of our senior executives and cannot replace them in a timely manner, our business may be materially and adversely affected.

Our rate of growth may be limited as competitors compete for such talented and skilled personnel who are becoming an increasingly scarce resource in Mongolia. The current demand for these talented and skilled personnel is expected to continue for the foreseeable future as the Mongolian banks develop in line with the economic development of Mongolia. Further, if we are unable to attract, assimilate and retain these talented and skilled personnel, it may be on terms that are economically disadvantageous. There is no assurance that we will be able to recruit staff in sufficient numbers or with sufficient experience, or that competition in recruitment will not lead to increases in our staff costs. Our failure to attract and retain competent personnel and any increase in staffing costs to retain such personnel could have a negative effect on our business, financial condition and results of operation.

We may not be able to detect and prevent fraud or other misconduct committed by our employees or outsiders

We are exposed to fraud or other misconduct committed by our employees or third parties, which could subject us to financial losses, third-party claims, regulatory actions or reputational damages. Similar to other financial institutions, we are exposed to the risk of fraud and other misconduct committed by employees or outsiders. Such fraud and other misconduct may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash transacted. We may not be able to prevent, or otherwise fully detect or deter, all incidents of fraud and misconduct involving our employees or third parties, including, without limitation, fraud, bribery, corruption and embezzlement. In the past, we have experienced cases of employee misappropriation, fraud, stealing and corruptions. While we have taken various steps to improve our internal control and audit procedures and prevent fraudulent actions as disclosed in details in the section headed “Business — Operational Risk Management,” such steps may be insufficient to detect and prevent similar occurrences from transpiring in the future. In addition, our failure to prevent future fraudulent actions may result in administrative or other regulatory sanctions by the FRC or other Government agencies and may also result in the suspension or other limits on our banking and other business licenses. We cannot assure you that we will be able to avoid future material incidents of fraud, which may in turn expose us to certain risks resulting us to suffer from negative publicity, reputation damage or litigation loss.

We are subject to risks associated with certain covenants or restrictions under our bank borrowings or other financing arrangements which may adversely affect our business, financial condition and results of operations

We are subject to certain restrictive covenants in the loan contracts, guarantee or financing agreements between us and certain banks and financial institutions. For instance, some agreements are subject to covenants that require us to maintain certain prudential and other financial ratios as well as restrictions and limitations. We cannot assure you that we will be able to abide by all restrictive covenants of any of our loan agreements in the future or obtain lenders’ consents or waivers in a timely manner or at all. For example, in 2023 we breached certain economic group exposure limits required under Guarantee Facility with the IFC Global Trade Finance Program. In December 2023, the IFC granted us a waiver (the “IFC Waiver”) with respect to these breaches for the period from December 1, 2023 to May 30, 2025 provided we maintain certain ratios with respect to exposure to business groups. See “Description of Other Material Indebtedness — Guarantees — Guarantee facility under IFC Global Trade Finance Program.” Should we fail to abide by the provisions of our loan contracts and financing agreements, including the IFC Waiver, our lenders may be entitled to accelerate repayment of our loans or other obligations, in which case our business, financial condition and results of operations will be adversely affected.

We may not be able to respond to rapid technological changes

Our future success will depend, in part, on our ability to respond to technological advances and emerging banking industry standards and practices on a cost-effective and timely basis. The development and implementation of such technology entails significant technical and business risks. According to the World Bank, the fintech market has significantly expanded during the COVID-19 pandemic. Although non-bank financial institutions have relatively smaller market share, they may pose a threat to commercial banks, and even market leaders like us, in the near future. We cannot assure you that we will successfully implement new technologies effectively or adapt our transaction-processing systems to customer requirements or emerging industry standards. If we are unable, for technical, legal, financial or other reasons, to adapt in a timely manner or at all to changing market conditions, customer requirements or technological changes, our business, financial condition and results of operations may be materially and adversely affected.

We may fail to manage risks associated with our information technology systems, including cyber security risks

We are subject to risks relating to our information technology systems and processes. These risks, which may arise internally and externally, include malfunctions and failures, human error or misconduct and other external factors. We rely on internal and external information and technology systems to generate new business, provide services to customers, administer customer data and manage our operations. We use increasingly advanced software, systems and networks to manage and back-up our customer and accounting data and other aspects of our business. These hardware and software are vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses and similar events or the interruption or loss of support services from third parties such as internet service providers, ATM operators and telephone companies. Any disruption, outage, delay or other difficulty experienced by any of these information and technology systems could result in delays in the provision or repayment of borrowings or decreased consumer confidence in our business, or otherwise adversely affect our business, financial condition and results of operations.

We also seek to protect our computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by our increased use of the internet. Computer break-ins and power disruptions could affect the security of information stored in and transmitted through these computer systems and network infrastructure. Because our computer systems and network infrastructure have only been recently deployed, there are areas in the system that have not been properly protected from security breaches. Although we employ security systems, including firewalls and password encryption, designed to minimize the risk of security breaches and maintain operational procedures to prevent break-ins, damage and failures, the potential for fraud and security problems is likely to persist, and we cannot assure you that these security measures will be adequate or successful. Failure in security measures could have a material adverse effect on our business, financial condition and results of operations.

Our trading activities may result in losses

We engage in trading of currencies, precious metals and securities. For 2021, 2022 and 2023, income generated from such trading activities represented 52%, 47% and 56% of our total operating income (calculated as sum of interest income, net fee and commission income and net other non-interest income/expense) (“Total Operation Income”), respectively. We may from time to time maintain long and short positions in different asset categories, from which we expect to earn revenues based on changes in the relative values of the assets. Our trading positions are inherently volatile as the prices of trading assets are subject to general economic, political and market conditions that may fluctuate from time to time. To the extent that the relative values of our trading assets change in a direction, manner or scope that we did not anticipate or against which we did not hedge, we may realize a loss in those paired positions. Risks arising both from our trading and investment strategy and general market volatility, which is beyond our control, could expose us to potential losses and may materially and adversely affect our business, financial condition and results of operations.

Our insurance may not be adequate to cover losses or liabilities that may arise

Consistent with industry practice in Mongolia, we maintain insurance against some, but not all, operational and natural disasters. In particular, consistent with industry practice, we do not maintain coverage for business interruption. We cannot assure you that our insurance will be adequate to cover losses or liabilities that may arise. In addition, we cannot predict the continued availability of insurance at acceptable premium levels. If we fail to renew our existing insurance policies at acceptable premium levels, we cannot assure you that we will be able to secure other insurance policies on acceptable terms in a timely manner. A significant uninsured or underinsured claim against us or the failure of our insurers to pay claims could materially and adversely affect our business, financial condition and results of operations.

We may be unable to procure or maintain the necessary licenses

All banking operations and various related operations in Mongolia require a general banking license from the Bank of Mongolia. We hold such a license, but we cannot assure you that we will be able to maintain such license or obtain a new general banking license if necessary in the future. Our failure to comply with applicable rules and regulations could result in penalties, loss of regulatory permits and damage to our business reputation, which could materially and adversely affect our business, financial condition and results of operations. If we lose our general banking license, we would be required to cease all banking operations immediately.

Risks Relating to the Mongolia Banking Industry

If we fail to fully comply with the various regulatory requirements applicable to us including the Banking Law of Mongolia, we may face regulatory action, our reputation could be harmed and our business, financial condition and results of operations could be materially and adversely affected

We are subject to the regulatory requirements and guidelines set forth by various regulatory authorities. We are regulated principally by, and have reporting obligations to, the Bank of Mongolia and the FRC. We are also subject to the banking, corporate and other laws in effect in Mongolia from time to time. See “Regulatory Overview — Banking Related Laws — Banking Law of Mongolia.”

Article 36.1 of the Amended Banking Law requires that no person or related parties can hold more than 20% of the shares of a bank by the end of 2023. Our controlling and largest shareholder, Mr. Bayasgalan Danzandorj, holds an 81.8% equity interest. See “Principal Shareholders.”

The Bank, along with other major banks and via the Mongolian Bankers Association has held several consultations with the Bank of Mongolia and other regulators regarding this issue. The Bank of Mongolia in its letter dated December 28, 2023, has formally expressed its understanding about the current difficulties faced by banks in complying with the 20% shareholding restriction in light of the size and liquidity of the market and other challenges of the investment environment of Mongolia.

On February 7, 2024, a draft amendment law on postponing the deadline for compliance with the above-mentioned 20% shareholding restriction from December 31, 2023 to December 31, 2026 has been submitted to the parliament. The draft amendment law is currently under discussion by the economic standing committee of the parliament, which may or may not decide to proceed with hearing of the draft at the plenary session. If the draft amendment law is not adopted by the parliament during its spring session of 2024, it is likely to be considered by the next parliament after the general elections to be held on June 28, 2024.

The Law on Implementation Procedures of Amendments to the Banking law adopted simultaneously with the Amended Banking Law provides for the following coercive measure for banks that are not in compliance with shareholding restriction: (i) taking preventive measures stipulated in Article 48 of the Amended Banking Law; (ii) imposition of provisional administration; and (iii) disregarding the shares that exceed the ceiling when calculating the capital of the bank. If the Bank of Mongolia disregards the shares that exceed the ceiling when calculating the capital of the bank, our Tier-1 capital ratio and capital ratio may fall below the minimum percentage each as set by the Bank of Mongolia, we may be unable to comply with the regulatory compliance covenant under the terms of the Indenture, which could cause a default under the Indenture and repayment of our Notes to be accelerated. See “— If we are unable to comply with the terms of the Indenture or our existing or future debt agreements, there could be a default under those agreements, which could cause repayment of our debt to be accelerated.” In addition, shareholders holding shares in excess of the limit shall be subject to the following actions: (i) suspension of voting rights; (ii) suspension of distribution of dividends for the excess shares; (iii) demanding the forced sale of the said shares; (iv) suspension of the right to receive a share from the proceeds from the sale of assets remaining after the liquidation of the company; and (v) suspension of other shareholder rights stipulated in the Company law.

The risk of certain coercive measures by the central bank does not cease to exist at any point until the deadline is postponed by an amendment to the law, and there is no guarantee that the law will be adopted by the parliament at all. Although we strive to attract more investors to diversify our shareholder base such as attracting public investors through our IPO on Mongolian Stock Exchange, we cannot assure you that we will be able to meet the 20% shareholder requirement imposed by Article 36.1 of the Amended Banking Law if the deadline for compliance is not extended. Further, notwithstanding any extension to the deadline for compliance, we cannot assure you that we will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations (including the 20% shareholder requirement), at all times, or that we will not be subject to sanctions, fines or other penalties in the future as a result of noncompliance. Any failure to comply with applicable requirements guidelines or regulations could have a material adverse effect on our financial condition and results of operations, as well as damage our reputation and our ability to grow our business.

The Mongolian system for the reporting of credit information is underdeveloped and evolving

The Mongolian banking system relies on the credit information system, which consists of the public system operated by the Bank of Mongolia and private bureaus licensed by the Bank of Mongolia. It offers basic details of a customer's credit history and credit quality, including the loan amount, disbursement date, the status of outstanding loans, and some rudimentary form of credit scoring. The system depends heavily upon participating banks, other non-bank financial institutions supplying accurate and timely credit information, which is difficult in the many areas where some micro-credit institutions and other organizations operate without connection to the centralized information systems or fail to provide information in timely and complete manner.

Pursuant to the Law of Mongolia on Credit Information, activity related to the collection and transmission of credit information is subject to license by the Bank of Mongolia. In recent years, the Bank of Mongolia has granted licenses to two private credit information bureaus, Sainscore and Burenscore. However, these bureaus are underdeveloped and have limited capacity/ability to collect, evaluate, and process credit information effectively.

As a result of the foregoing, we may not have knowledge of additional credit obligations or exposures of our borrowers. We may therefore be exposed to credit risk which we may not be able to accurately assess and provide for, which could have a material adverse effect on our financial condition and results of operations.

The Mongolian banking system is underdeveloped, and the regulations governing banks are evolving

Mongolia's banking and other financial systems remain in the early stages of development and the standard and degree of legislation, supervision and transparency of the Mongolian banking sector in some respects, in particular, with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements, differs or lags behind internationally accepted norms. Deficiencies in the Mongolian banking sector may result in the banking sector being more susceptible to market downturns or economic slowdowns. If a banking crisis were to occur, we and other Mongolian banks could be subject to severe liquidity constraints due to the limited supply of deposits and the potential withdrawal of foreign funding sources. Certain Mongolian legislation relating to banks and bank accounts can also be subject to varying interpretations and inconsistent application. The imposition of more stringent regulations or interpretations as the Mongolian banking sector develops could lead to weakened capital adequacy and the insolvency of some banks.

We are regulated principally by, and have reporting obligations to, the Bank of Mongolia and the FRC. We are also subject to the banking, corporate and other laws in effect in Mongolia from time to time. See "Regulatory Overview — Banking Related Laws — Banking Law of Mongolia." The regulatory and legal framework governing our business differs in certain material respects from that in effect in other jurisdictions, including the United States, and may continue to change as the Mongolian economy and commercial and financial markets evolve. If any additional rules and regulations are introduced by the FRC and the Bank of Mongolia, as regulators, may be unable to implement the changes in a consistent

manner and there may be uncertainties in the application or official interpretation of such laws and regulations. Further, if these and other additional rules or regulations are introduced, we may incur substantial compliance and monitoring costs. We cannot assure you that we will be able to meet all applicable regulatory requirements and guidelines, or comply with all the applicable regulations, at all times, or that we will not be subject to sanctions, fines or other penalties in the future as a result of noncompliance. Failure to comply with applicable rules and regulations could result in penalties, loss of regulatory permits and damage to our business reputation, which could have a material adverse effect on our business, financial condition and results of operations.

Guidelines for non-performing loan classifications and provisioning in Mongolia require subjective determinations and may be less stringent than regulations in other jurisdictions

In June 2019, the Bank of Mongolia approved the revised Regulation on Asset Classification and Provision and its Disbursements under its Order No. A-155/134. This regulation, which seeks to establish loss provisioning on both loans and assets, requires the total loss provision is to be determined as the sum of a general provision and a specific provision, and that banks must set their provision at a level sufficient enough to cover any loss which the bank expects to incur or may face due to uncertainty. The Bank of Mongolia's regulations with respect to loan classifications and provisioning, in certain circumstances, may be less stringent than similar regulations applicable to banks operating in other jurisdictions. These differences may result in our classifying particular loans as non-performing at a later time, or in a category reflecting a lower degree of risk, than might be expected in other jurisdictions, including the United States. As a result, the level of our non-performing loans, and our associated reserves, may be lower than would be required if we were regulated in another jurisdiction. Further, if we change our provisioning policies to coincide with international standards or otherwise, our business and results of operations may be adversely affected.

In addition, the level of provisions we make for our loan portfolio depends largely on the accuracy of our information on, and our evaluation of, the credit position of our borrowers. If our evaluation of the quality of our loan portfolio is inaccurate, the level of our provisions may not be adequate to cover actual losses resulting from our existing non-performing loan portfolio. We may also have to increase our level of provisions if there is any deterioration in the overall credit quality of our existing loan portfolio, including the value of the underlying collateral. See also “— Risks Relating to Our Business — The value of our collateral may be overstated and may decline in the future” and “— Mongolia has an underdeveloped and evolving system for the reporting of credit information.”

We are exposed to the risks of the Mongolian financial system which may in turn be affected by financial and other difficulties faced by Mongolian financial institutions

The Parliament of Mongolia approved the revised version of the Law on Deposits, Transfer of Funds and Lending Activities of Banks and Authorized Legal Entities, and it came into force on July 1, 2021. This law has been revised in line with the concept of harmonizing with the legal reform of the banking and financial sector, improving it in line with the current situation, protecting the interests of consumers, depositors and borrowers in the financial sector, and increasing public confidence in the banking and financial sector. Nonetheless, as an emerging market economy, the Mongolian financial system faces risks of a nature and magnitude not typically faced in more developed countries, including the risk of significant withdrawals of deposits by depositors (“deposit runs”). Historically, the Mongolian financial system experienced difficulties in its banking sector such as high levels of non-performing loans, which led to liquidity difficulties for commercial banks. This led to the receivership and insolvency of several domestic commercial banks. Although we did not suffer from illiquidity and insolvency difficulties during these banking crises, we cannot assure you that we will not be affected by such difficulties in the future as a result of deposit runs, non-performing loans or other factors. The problems faced by individual Mongolian financial institutions and any instability in or difficulties faced by the Mongolian financial system generally could create a negative market perception towards Mongolian financial institutions and banks, which could in turn materially and adversely affect our business, financial condition and results of operations.

Our ability to conduct our business activity in Mongolia is subject to political risk

Our ability to efficiently conduct our business activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond our control. Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other Government limitations, restrictions or requirements not currently foreseen may be implemented. In addition to direct Government policies regarding foreign investment as well as disputes relating to foreign investors, such as the Oyu Tolgoi mine investment agreement disputes related to tax issues, may negatively affect the international perception of investment in Mongolia and discourage foreign investment. We cannot assure you that potential foreign investors would not decrease their investment due to the uncertainties surrounding these disputes and resolution. Our business activities are subject to political risks that are beyond our control. For example, the Bank's major shareholder, Mr. Bayasgalan Danzandorj was investigated as a accomplice in a corruption and bribery case against former prosecutor-general Mr. D. Dorligjav which case was closed in 2020. See “— Risks Relating to Our Business and Industry — Our controlling shareholder and related parties may exercise influence over certain of our affairs and may have interests which differ from ours and our reputation may be adversely affected by the previous legal proceedings involving Mr. Bayasgalan Danzandorj.”

We cannot assure you that our assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of our original investment. In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, terrorist attacks or threats or acts of war in the affected areas, any of which could materially and adversely affect our business, prospects, financial condition and results of operations. See “— Mongolia has experienced and may continue to experience political and social instability.”

Weaknesses relating to the Mongolian legal system and Mongolian legislation create an uncertain environment for investment and business activity

The legal system in Mongolia is at an early stage of development and has various uncertainties that could limit the full legal protections that may be available to Noteholders in more developed countries. The legal framework in Mongolia is, in many instances, based on recent political reforms or newly enacted legislation, which may not be consistent with long-standing local conventions and customs. Local institutions and bureaucracies responsible for administering laws may lack proper understanding of the laws or the experience necessary to apply them in a modern business context. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. We carry out activities that are provided in Articles 6.1 and 6.2 of the Banking Law, which do not include business arrangements or structures that may carry significant risks, and are prohibited from conducting any other activities. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be invalidated. The Government may also, in certain circumstances interfere with the performance of contracts or engage in unlawful, selective or arbitrary actions, such as the suspension or withdrawal of licenses of Khan Resources and the tax dispute with Turquoise Hill. We cannot assure you that the Government will not engage in such actions in the future such that our business and operations would be materially and adversely affected.

The following risks relating to the Mongolian legal system create uncertainties, many of which rarely exist in countries with more developed market economies:

- inconsistencies among, or uncertainties in the application or official interpretation of, laws, decrees, orders and regulations, and regional and local rules and regulations, as a result of limited judicial guidance, lack of *stare decisis* or established precedents and other factors;
- limited judicial guidance on interpreting Mongolian legislation;

- gaps in the regulatory structure due to delay in, or absence of, implementing regulations;
- the lack of experience of judges and courts in interpreting new principles of Mongolian legislation, particularly those relating to securities laws;
- a relatively high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

In general, the Mongolian judicial system is relatively inexperienced in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. The Mongolian judicial system may also favor Mongolian parties over foreign companies and individuals. Further, it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. The introduction of new Mongolian laws and regulations and the application or interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. As the Mongolian legal system continues to develop, we cannot assure you that changes in such legislation or application or interpretation thereof will not have a material adverse effect on our business, financial condition, results of operations and future prospects.

In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our businesses, our assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on our business and prospects and on the trading price of the Notes.

The rapid growth of the banking industry in Mongolia may not be sustainable

The Mongolia banking industry has experienced rapid growth along with Mongolia's economic development. Notwithstanding the significant growth in the banking industry in Mongolia, it is uncertain whether the Mongolia banking industry can sustain its current rate of growth. A slowdown in the growth of the Mongolian economy or other parts of the world could materially adversely affect the banking industry in Mongolia and our business, financial condition and results of operations.

Risks Relating to Mongolia

Public health crisis and pandemics/epidemics, such as the COVID-19 pandemic, may materially and adversely affect Mongolia's economy

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, which was declared a "pandemic" by the World Health Organization ("WHO") in March 2020, has led to significant global economic and financial disruptions, including an adverse impact on international trade and business activities. Mongolia declared a state of emergency in response to the outbreak on January 17, 2020. The continued spread of COVID-19 led to a public health crisis and had a severe negative impact on the global economy, curtailing international trade and business activities and increasing economic uncertainty. Measures taken by the Mongolian government to combat the spread of COVID-19, such as suspension of air travel, limited operation hours for all types of restaurants and closures of schools, adversely affected various sectors in the economy, which could affect the overall credit quality of our loan portfolio. The Government and the Bank of Mongolia may in the future implement similar restricted measures in the future to manage the adverse impact of public health crisis such as COVID-19. Decreasing global economic activity reduced demand and the price of raw materials such as coal, one of Mongolia's major exports and economic drivers. In early 2020, China imposed a strict lockdown, which led to decreased demand for coal imports and physical closure of border crossings between Mongolia and China for an extended period.

Mongolia's economy has experienced recent periods of slow or negative growth

Historically, Mongolia has experienced periods of slow or negative growth and a devaluation of the Togrogs. The ability of the Issuer to pay amounts of principal or interest under the Notes is subject to, among other considerations, the performance of the Mongolian economy. Historically, certain policies implemented by the Government from time to time and other factors have caused fiscal imbalances or current account deficits. While the government has implemented various measures in an attempt to stabilize the economy and reduce its budget deficits and improve fiscal discipline, factors outside of its control, such as the collapse of copper and coking coal prices in 2008 and 2015, the outbreak of COVID-19 in 2019, the Russia-Ukraine war since 2022, continued weak commodity prices, or a slowdown in China's economic growth, may materially and adversely affect the economy and operating environment in Mongolia.

In addition, Mongolia has received and will continue to seek financial support and resources from the international community. On May 24, 2017, the IMF announced a program of financial assistance for Mongolia which included approximately US\$434.3 million in an extended fund facility. This program was accompanied by a broader approximately US\$5.5 billion financing package supported by Japan, Korea, China, the World Bank and the ADB. The IMF program was concluded on May 23, 2020. In addition, Mongolia also has significant amounts of outstanding foreign currency denominated bonds and Government-guaranteed indebtedness. In response to the COVID-19 pandemic, Mongolia also received a total of US\$318.0 million of loans and grants, with tenors of 30 to 40 years, from various international institutions and foreign governments, such as the EU, the International Monetary Fund, the Asian Development Bank, the World Bank and the Asian Infrastructure Investment Bank. Any slowdown in the Mongolian economy, including a significant deterioration of the fiscal budget or the value of the Togrogs, an increase in interest rates, or decline in global commodity prices for Mongolia's export commodities could adversely affect the ability of Mongolia to meet its obligations under its outstanding and future borrowings. All of our business operations and assets are based in Mongolia. As a result, our income, results of operations and the quality and growth of our assets depend, to a large extent, on the performance of the Mongolian economy. This, in turn, could adversely affect our business, the quality of our assets, our financial performance and trading in the Notes.

Mongolia has experienced and may continue to experience political and social instability

Prior to 1990, Mongolia was a socialist country and the only functioning political party was the Mongolian People's Revolutionary Party, which is now the Mongolian People's Party. Since the collapse of communism in 1990, Mongolia has experienced a process of democratic change, resulting in political and social events that have highlighted the unpredictable nature of Mongolia's evolving political landscape. Such events have resulted in political instability as well as general social and civil unrest on certain occasions.

Mongolia's transition to democracy has been relatively peaceful, and transitions between governments have generally been smooth and peaceful (aside from the protests and riots of 2008). However, since there has historically been representation of various political parties in the government, tensions continue to exist between the political parties and within each political party. We cannot assure you that politically generated disturbances will not occur in the future or on a wider scale, or that the government will not pursue or implement policies that differ significantly from those of previous governments. Future changes in the government, the ruling party, major policy shifts or lack of consensus between the various political groups and within each political party could lead to political instability and have a significant adverse impact on the economy and development of Mongolia, and investors may adopt an even more cautious approach towards Mongolia's securities markets or investments in Mongolia in general, and such factors could also adversely affect trading in the Notes.

It may not be possible for investors to effect service of process or to enforce certain judgments on us

The Issuer is a bank organized as an open joint-stock company incorporated under the laws of Mongolia. All or a substantial portion of our assets are located in Mongolia. In addition, most of our directors and officers are residents of Mongolia and all or a substantial portion of their assets are or may be located in Mongolia. As a result, it may be difficult for you to effect service of process upon us or such persons, or to enforce against us or them judgments obtained in courts or arbitral tribunals outside Mongolia predicated upon the laws of jurisdictions other than Mongolia, including the civil liability provisions of the United States federal or state securities laws.

We have been advised by our Mongolian legal counsel that the courts of Mongolia will not enforce judgments of U.S. courts obtained against us, our directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws. There can be no assurance that the claims or remedies available under Mongolian law will be the same, or as extensive, as those available in other jurisdictions.

The Mongolian economy depends heavily on agriculture and commodities for growth, which are cyclical in nature, and is particularly vulnerable to fluctuations in commodity prices

The Mongolian economy depends heavily on certain market sectors, particularly coal, copper and gold mining and agriculture, including herding livestock. According to the National Statistical Office of Mongolia, mining and agriculture accounted for 24.1% and 12.8%, respectively, of Mongolia's GDP for 2020, 25.2% and 13.0%, respectively, of Mongolia's GDP for 2021, and 25.1% and 13.1%, respectively, of Mongolia's GDP for 2022. The reliance on mineral revenue makes the economy vulnerable to being an undiversified, dual mining/agricultural economy subject to mineral price volatility and occasional severe winters. Mongolia's mining boom also carries with it certain risks associated with mineral dependency, such as "Dutch Disease," where an increase in the exploration of natural resources is accompanied by a decline in the manufacturing sector, an appreciating currency and inflation, unemployment in the non-mining sectors with a deepening inequality among workers by placing a premium on skilled labor, and the "natural resource curse" of rising corruption, unequal distribution of wealth and related social disruption.

Prices for agricultural products and commodities such as gold and copper are based upon or affected by global prices for such products, which tend to be cyclical in nature. The markets for such products are sensitive to changes in industry capacity and output levels and changes in the world and Asian economies (including the imposition of tariffs and/or anti-dumping measures by the United States, the EU, countries in Southeast Asia or by other principal export markets), all of which can have a significant impact on selling prices. As such, the Mongolian economy is affected by both worldwide and regional levels of demand for these products, along with price competition. Moreover, weak economic conditions or changes in consumer preferences, whether in the world, Asia generally or Mongolia specifically, may reduce demand and put pressure on margins. For example, generally lower prices for copper and coal put pressure on the pricing of Mongolian copper and coal in the first half of 2020, which contributed to the slowdown in GDP growth. Similarly, the economic impact of the COVID-19 pandemic, including reduced global consumer demand and border closures that limited tourist arrivals to Mongolia during the peak summer season, contributed to lower cashmere sales in 2020, both for finished products and raw materials. To the extent that the Mongolian economy is affected by such price fluctuations, our business, financial condition, results of operations, cash flows and prospects may be adversely affected.

The Mongolian economy is heavily dependent on its export trade and, in particular, relies on the PRC as its main export market. Any decrease in the level of demand in the PRC for exports from Mongolia will affect the Mongolian economy

The Mongolian economy relies heavily on its export trade and produces and exports large amounts of metal ores, coal and agricultural products. Since its transition to a market economy in the 1990s, China has emerged as Mongolia's largest trading partner, mainly due to its geographic proximity and the size of its economy. According to the National Statistical Office of Mongolia, China accounted for 82.7%, 84.3% and 91.4% of Mongolia's total exports in 2021, 2022 and 2023, respectively. Mining products such as coal, copper and other metals represent the majority share of Mongolian exports to China. As the Mongolian economy is heavily dependent on its export trade, trade relationships with China can influence Mongolian economic conditions and, in particular, any decrease in the level of demand for its exports would adversely affect Mongolia's GDP and economy. For example, the slowdown in the growth of China's economy in recent years reduced trade volume between China and Mongolia in 2019 and 2020. There is no assurance that the slowdown in growth of China's economy will not persist or that such a slowdown would not further adversely impact China's demand for exports from Mongolia. Furthermore, as a result of the COVID-19 pandemic, between 2020 and 2022, Mongolian exports to China decreased significantly, as trade was essentially suspended for over two years and China's economy slowed, lowering demand for raw materials and commodities. We cannot assure you that there will not be an increase in Mongolian imports, a decrease in Mongolian exports, or a reduction in prices of Mongolian exports, that would lead to trade deficits. In addition, any extended slowdown in the growth of China's economy may lead to decreased demand or lower prices for Mongolian exports to China, which would also adversely impact trade between China and Mongolia and potentially give rise to a trade deficit. Any significant trade deficit would adversely affect the Mongolian economy, and therefore, our business, future financial performance and trading in the Notes may be adversely affected.

A decline in Mongolia's foreign exchange reserves could affect liquidity and interest rates in the Mongolian economy

In light of the recent and past depreciation of the Tugrik against the U.S. dollar, the Bank of Mongolia has taken measures, including the implementation of a flexible exchange rate regime that limited intervention and facilitated the opportunistic building of reserves. The Monetary Policy Committee cut the policy rate from 11.0% at the beginning of 2020 to 6.0% in November 2020 in response to the COVID-19 pandemic, and the rate remained at 6.0% until the beginning of 2022. However, to curb rising inflation and address other economic and financial risks, the policy rate was raised to 13.0% in December 2022, and has been lowered to 12.0% through the Monetary Policy Committee's most recent meeting in March 2024. Mongolia's total foreign exchange reserves decreased from US\$4,534.2 million as of December 31, 2020 to US\$4,366.1 million as of December 31, 2021 and US\$3,399.6 million as of December 31, 2022. Total foreign exchange reserves increased to US\$4,918.4 million as of December 31, 2023. The historical deterioration was primarily driven by higher global prices for imported food and fuel, high levels of equipment imports, and a contraction in exports due to Chinese border restrictions. In particular, imports continued to grow in relation to the infrastructure and construction projects and the release of demand for consumer durables and services financed by savings accumulated during the COVID-19 pandemic. In addition, a large share of Mongolia's export revenue from Erdenes Tavan Tolgoi was used to finance large-scale investment projects by Chinese construction companies in Mongolia, thereby restricting foreign exchange inflows and boosting import growth. These factors, together with capital outflows, increasing deposit dollarization and tighter global financial conditions, exacerbated exchange rate pressures and led to the historical decline in Mongolia's foreign exchange reserves. The recent increase in foreign exchange reserves was mainly driven by an increase in coal export volume following the commencement of operation of Zuunbayan — Khangai railway in November 2022 and the removal of China's pandemic border controls. In response to the worsening foreign currency situation, banks in Mongolia have imposed measures restricting conversions of Tugriks into foreign currencies, including by setting daily limits on the amount that can be converted into foreign currencies. With the improvement of external and domestic economic conditions, the relevant banks subsequently removed these restrictions. However, there is no assurance that the banks will not impose additional and more stringent foreign exchange measures, which could prevent individuals and businesses from obtaining sufficient foreign

currency to satisfy their foreign currency demands. Under the Law on Currency Regulation of 1994, Mongolian commercial banks require approval from the Bank of Mongolia to undertake transactions in amounts that may affect the exchange rate of the Tugrik. There are no other restrictions on repatriation of foreign currencies from Mongolia and there are no foreign exchange controls. Like other emerging market governments, Mongolia may face higher financing costs due to higher global interest rates, which may adversely affect Mongolia's foreign exchange reserves and could affect Mongolia's ability to refinance its external debts. As a result, the Mongolian economy may be adversely affected and the market's confidence in the Mongolian economy may decrease. The Issuer cannot assure you that Mongolia's total foreign exchange reserves will not decline significantly, which could result in reduced liquidity and higher interest rates in the Mongolian economy. Reduced liquidity, increasingly stringent foreign exchange control measures or an increase in interest rates in the Mongolian economy following a decline in foreign exchange reserves could adversely affect the Mongolian economy, and therefore, our business, future financial performance and trading in the Notes may be adversely affected.

Mongolia may be subject to periods of high inflation, which could have a material adverse effect on Mongolia's economy

Mongolia depends on imported goods from foreign countries. Mongolia recently experienced periods of high inflation, especially for food, refined petroleum and electricity, primarily as a result of supply-side and global factors, including high international prices, stagnancy in domestic production, and supply disruption related to China's border restrictions in response to the COVID-19 pandemic and sanctions against Russia related to the Russia-Ukraine conflict. Mongolia's inflation has been exacerbated by currency devaluation, as this had significantly increased the prices for imported goods, which are primarily priced in foreign currencies, including the U.S. dollar. In 2021, 2022 and 2023, Mongolia's inflation rate was 13.4%, 13.2% and 7.9%, respectively. The Bank of Mongolia has implemented a number of measures to try to contain inflationary pressures. Between December 2021 and September 2022, the Monetary Policy Committee (the "MPC") of the Bank of Mongolia raised the policy rate by an aggregate of 7.0 percentage points, with the policy rate reaching 13.0% in December 2022. The policy rate has been reduced to 12.0% in March 2024. The MPC also adopts additional measures with the objective to stabilize inflation in the medium term, including widening the policy rate corridor to the pre-COVID-19 level, which is ± 2.0 percentage points, and excluding certain bank liabilities newly funded on international markets from reservable liabilities.

However, there can be no assurance that measures taken by the Bank of Mongolia and the Government will be successful in meeting the Bank of Mongolia's inflation target or that inflation will not otherwise increase further in the future. In particular, the inflation may continue for prolonged periods if China's economic slowdown affect trade, if the Russia-Ukraine continues, or if energy prices continue to rise. Increased prices of energy and commodities have disproportionately affected low-income families and local farmers and herders, who have to cut back on other necessities and incur additional debts. Similarly, small and medium enterprises that suffered from the COVID-19 pandemic were further impacted by consequences that resulted from the Russia-Ukraine conflict. In addition, increases in the policy rate have also increased the domestic borrowing costs and may result in lower levels of lending and decreased economic growth. High and persistent inflation may materially and adversely affect Mongolia's economic growth and stability, thereby negatively impacting investor confidence and adversely affecting our business.

Any downgrade of Mongolia's and our credit rating could have a material adverse effect on the market value and trading price of the Notes

On March 16, 2021, Moody's changed Mongolia's outlook to stable from negative and affirmed its long-term "B3" issuer and foreign currency senior unsecured bond ratings, citing the stabilization of liquidity risks and external pressures. On May 25, 2021, Fitch Ratings affirmed Mongolia's long-term foreign-currency issuer rating at "B" with a stable outlook, reflecting Fitch's assessment that economic recovery will continue during the remainder of 2021 that will facilitate a modest decline in the government debt/GDP ratio, despite temporary disruptions associated with a spike in COVID-19 cases since March 2021. On July 21, 2022, S&P affirmed Mongolia's long-term sovereign credit rating at B with a stable outlook, citing Mongolia's sound economic growth prospects and ongoing improvements to its fiscal metrics and decreased external debt risk. On July 13, 2022, Moody's affirmed Mongolia's long-term issuer ratings and senior unsecured ratings at B3 and the senior unsecured MTN program rating at (P)B3, with outlook remaining stable. On May 18, 2022, Fitch Ratings affirmed Mongolia's long-term foreign-currency issuer rating at "B" with a stable outlook, reflecting Fitch's assessment that economic recovery will continue and the border disruptions between Mongolia and China associated with COVID-19 pandemic will ease in 2023. On May 15, 2023, Fitch Ratings affirmed Mongolia's long-term foreign-currency issuer rating at "B" with a stable outlook, reflecting Fitch's assessment that economic recovery will continue due to the recovery of the mining sector, as well as the stabilization of external debt financing following the successful debt refinancing in early 2023. Any downgrades in Mongolia's sovereign rating or placement of Mongolia on ratings watch may have an adverse effect on the market value and trading price of the Notes. A credit rating may not reflect the potential impact of all risks related to the structure, market, additional factors above and other factors that may affect the value of the Notes issued. Negative changes to Mongolia's credit ratings may affect the availability of financing for the Issuer from new and existing counterparties.

Key decisions concerning laws relating to foreign participation in the country's mining sector may have an adverse impact on the Mongolian economy

The Mongolian economy depends heavily on commercial activity associated with the Mongolian mining industry. The development of mining laws and regulations in Mongolia continues to be at a nascent stage and is influenced by the interests of political parties, mining interests, domestic financial interests as well as the need to maintain the Mongolian mining industry as a commercially attractive choice for foreign investment. Laws governing Mongolia's mining industry, including provisions pertaining to Government participation in or control of certain projects as well as the royalties and other taxes payable by the mining industry, have historically been subject to periodic substantive revision by Parliament. For example, the Government has imposed a windfall profits tax on mining reserves and made changes to the basic royalty rate in order to replace lost tax revenues. In addition, the Investment Law requires investors with foreign (direct or indirect) state ownership of 50.0% or more to obtain approval from the Ministry of Economy and Development when acquiring an interest of 33.0% or more in a company operating in certain strategic sectors, which includes the mining sector. Furthermore, the Government executed the Mine Plan with Oyu Tolgoi LLC, Turquoise Hill and Rio Tinto in May 2015 to address funding and feasibility studies for Oyu Tolgoi, and a project financing facility agreement for Oyu Tolgoi's Phase II was signed in December 2015. The development of underground mining at Oyu Tolgoi was approved in May 2016, with a then total expected investment of US\$5.3 billion. In June 2022, the updated estimate of total investment increased to US\$7.1 billion, which was US\$1.8 billion more than the original estimate. In January 2022, Rio Tinto and the Mongolian Government reached an agreement, on the commencement of underground operations at the Oyu Tolgoi copper mine. Approximately US\$5.9 billion has been invested in the underground mining development as of September 30, 2023. Although the Government has a significant role in major mining projects such as Oyu Tolgoi, legislative changes in 2015 permitting the Government to transfer its equity interests in such projects in exchange for royalties created uncertainties for investors in the mining sector. Future revisions to this legal regime may adversely impact foreign direct investment in Mongolia and its mining industry in particular, and in turn, the Mongolian economy could be materially adversely affected.

Mongolian companies, including us and state-owned entities, have dealings with entities subject to international sanctions

The U.S., the EU, and the UK each implemented sectoral sanctions in 2014 in reaction to Russia's actions in Ukraine. Following Russia's invasion of additional Ukrainian territories in February 2022, a number of countries, including the U.S., the UK and the EU and various EU states, expanded sanctions applicable to Russia, Russian entities — in particular financial institutions — and their enforcement of these sanctions.

Mongolia has extensive trade, investment and other relations with both China and Russia, and as part of these relations Mongolian companies including us have dealings with entities that are, or may become, subject to U.S. or other international economic sanctions. For example, on June 10, 2021, we signed a bilateral facility agreement with International Investment Bank ("IIB") before IIB appeared on the SDN List in 2023 and obtained a total of US\$10 million in financing to finance the investment projects of our SME loan portfolio, facilitate the investment projects of our clients that provide for supplies, works or services from IIB member country and finance projects that support Mongolia's sustainable development goals. We fully repaid the loan on January 22, 2024 via GazpromBank in RUB. We also executed energy related payments through GazpromBank of Russia which is listed in the U.S. Non-SDN list (non-blocking sanctions) in CNY and RUB. Mongolia imports substantially all of its petroleum products from Russia, and as part of those imports Mongolian companies, including state-owned Ulaanbaatar Railway JSC, purchase petroleum products from the Russian state-owned Rosneft Oil Company, which is also on the Sectoral Sanctions¹² Identification List and our customer. Mongolia also imports grains and fertilizers from Russia.

The imposition of sanctions and Russia's withholding of its oil and gas — either at Russia's own initiative to make these strategic resources its economic weapon or as a result of Russia's inability to settle payments for its oil and gas through SWIFT — have had a material and adverse effect on the economic markets in general, and could adversely impact Mongolia's economy and its current and future trade with Russia. For example, as a result of measures taken by major Western banks in response to the sanctions against Russia, Mongolia's payments to Russia for energy were temporarily delayed. The Government has worked closely with its Western partners to resolve issues with any correspondent banks in Russia and is now relying on a combination of general and specific licenses to make these payments. The Government expects to continue to work with its Western partners to ensure payments for Russia's exported goods without violating relevant sanctions. However, as the development of the Russia-Ukraine war and related economic sanctions against Russia are highly unpredictable and beyond the Government's control, there is no assurance that the Government will not encounter further difficulties in relation to trade payments or that the current arrangement will continue to permit necessary payments. Western sanctions directed at Russia could change at any time, and the licenses that Mongolia relies on may no longer be available. Any uncertainties in Mongolia's settlement of payments with Russian counterparties may lead to material disruption of the supply of strategic resources, including energy and food, imported from Russia, which could in turn materially and adversely affect Mongolia's economic stability and growth.

Moreover, the imposition of sanctions and Russia's withholding of its products have led and may continue to result in supply-side inflation in Mongolia. Following the Russia-Ukraine war and the associated international sanctions imposed on Russia, energy and food prices in Mongolia rose and Mongolia's inflation rate was 13.2% and 7.9% for 2022 and 2023, respectively. Any prolonged period of persistently high inflation could lead to an increase in the costs of living for Mongolia's households and the transportation and production costs for Mongolia's business entities, which in turn could materially and adversely affect the Mongolian economy and Mongolia's social and economic stability. See "— Mongolia may be subject to periods of high inflation, which could have a material adverse effect on Mongolia's economy." The imposition of economic sanctions and trade restrictions of the types discussed above are highly political, and it is difficult to predict when and how they will be imposed. If the scope of these types of measures — including the entities that are subject to them — were to broaden, they could limit Mongolia's ability to do business with its two major trading partners. These or similar developments could adversely affect Mongolia's economic condition and growth prospects, which could in turn adversely affect the value of the Notes.

Emerging markets such as Mongolia are subject to greater risks than more developed markets, and are particularly vulnerable to fluctuations in the global economy

The Mongolian market and the Mongolian economy are influenced by economic and market conditions in other countries. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in capital markets of many emerging market countries, including Mongolia, as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Mongolia and adversely affect the Mongolian economy. A loss of investor confidence in the financial systems of other emerging markets may cause volatility in Mongolian financial markets and indirectly, in the Mongolian economy in general. Any worldwide financial instability could also have a negative impact on the Mongolian economy, including on the movement of exchange rates and interest rates in Mongolia. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Mongolian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect trading in the Notes. Mongolia's inflation rate is also higher than some of the more developed economies. A further increase in Mongolia's inflation rate could materially and adversely affect our business, future financial performance and trading in the Notes.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Mongolia are subject to rapid change and that the information set out in this offering memorandum may become outdated relatively quickly.

Uncertainties and instability in global market conditions could adversely affect Mongolia's economy

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to armed conflicts, the COVID-19 pandemic, economic instability and trade tensions in several areas of the world. These ongoing global economic conditions have led to significant volatility in capital markets around the world, including Asia, and further volatility could significantly impact investor risk appetite and capital flows into emerging markets as well as the price of the Notes. The unprecedented COVID-19 pandemic had a major negative effect on the global economy. Due to the widespread impact of COVID-19, the international community has taken measures including border closures, domestic lockdowns and travel restrictions to prevent the transmission of the virus.

Even before the COVID-19 pandemic, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had slowed from its previous period of double-digit GDP growth. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the EU, the United States, Japan and China, in reaction to the global financial crisis that began in 2007 and the COVID-19 pandemic. Protests, unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. In particular, the tensions between China and the United States has raised concerns with respect to trade, treaties, tariffs, and international organizations since 2018. As both countries are important trading partners for many countries, the continued friction between them, including possible confrontations over Taiwan or the South China Sea, have introduced significant uncertainties and volatility to international trade and the financial markets. Mongolia's economy is heavily intertwined with that of China. Trade with China typically accounts a very substantial majority of Mongolia's total trade, while trade with Russia typically accounts for 11% to 15%.

We cannot assure you that the uncertainties affecting global markets will not negatively impact credit markets in Asia including Mongolia. These developments may adversely affect trade volumes with potentially negative effects on Mongolia.

Corruption and bribery are threats to Mongolia's economic growth and democratic governance

Corruption and bribery are threats to Mongolia's economic growth and democratic governance. The Independent Authority Against Corruption has investigated, and is conducting ongoing investigations in relation to allegations of corruption, misuse of power, misappropriation of state funds and bribery against former Government officials. See "— Mongolia has experienced and may continue to experience political and social instability." These alleged acts of corruption and bribery by Government officials could materially and adversely affect the Government, the Mongolian economy, the political environment and stability, negatively impact investor confidence and adversely affect trading in the Notes.

Destabilizing events in other parts of the world could interrupt our business

Acts of God, wars, terrorist attacks, riots, civil commotions and other events beyond our control have increased the uncertainty of global economic prospects in general. We cannot assure you that further terrorist acts or other destabilizing events will not occur in the future. In addition, although such acts and events have not targeted or directly affected Mongolia, our assets or those of our customers, we cannot assure you that they will not do so in the future. Our current insurance policies do not cover terrorist attacks or other such destabilizing events. Any terrorist attack, natural disaster or other such event including damage to our infrastructure or that of our customers, could cause interruption to parts of our business and materially and adversely affect our business, financial condition, results of operations, cash flows and prospects.

Risks Relating to the Notes

Non-enforcement of foreign judgments may limit the ability of holders of the Notes to recover damages from us through court proceedings

We are a bank organized as an open joint-stock company listed on the Mongolian Stock Exchange and incorporated under the laws of Mongolia. All or a substantial portion of our assets are located in Mongolia. In addition, most of our directors and officers are residents of Mongolia and all or a substantial portion of their assets are or may be located in Mongolia. As a result, it may be difficult for you to effect service of process upon us or such persons, or to enforce against us or them judgments obtained in courts or arbitral tribunals outside Mongolia predicated upon the laws of jurisdictions other than Mongolia, including the civil liability provisions of the United States federal or state securities laws, including judgments obtained in connection with the Notes and the Indenture. The Notes and the Indenture are governed by New York law and the Issuer has agreed in the Indenture that disputes arising thereunder or in respect of the Notes are subject to arbitration before the Singapore International Arbitration Center. The Issuer has also agreed to submit to certain New York federal and state courts for the purpose of judicial relief in support of any arbitral award under the Indenture and the Notes. However, Mongolian courts will not enforce any judgment obtained in a court established in a country other than Mongolia unless, among other things, there is in effect a treaty with such country and Mongolia providing for the reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Mongolia and the United States. As a result, you may be required to pursue claims against us in Mongolian courts. Although Mongolian courts may enter judgments based on choice of law of jurisdictions other than Mongolia, in view of the lack of experience of the Mongolian courts with foreign law, the results of such judgments may be unsatisfactory to support the legitimate claims of litigants. We cannot assure you that the claims or remedies available under Mongolian law will be the same, or as extensive, as those available in other jurisdictions. See also "Enforceability of Foreign Judgments." In the event of any proceedings being brought in a Mongolian court in respect of the enforcement in Mongolia of a foreign judgment expressed to be payable in a currency other than Tugriks, provided that there is a legal assistance treaty between Mongolia and the country of jurisdiction of that foreign court permitting enforcement in Mongolia, or in the case of an arbitration award enforceable in Mongolia under the New York Convention, such foreign judgment or arbitration award will be enforceable in Mongolia. However, there can be no assurance that a Mongolian court would not require conversion of the awarded amount into Tugriks and order enforcement of the same in Mongolia in Tugriks.

The Notes do not restrict our ability to incur additional debt, repurchase the Notes or to take other actions that could negatively impact holders of the Notes

We are not restricted under the terms of the Notes from incurring additional debt, including secured debt, or from repurchasing the Notes (except as described under “Description of the Notes — Certain Covenants — Negative Pledge”). In addition, the covenants applicable to the Notes do not require us to achieve or maintain any minimum financial results relating to our financial position or results of operations. Our ability to recapitalize, incur additional debt and take other actions that are not limited by the terms of the Notes could have the effect of diminishing our ability to make payments on the Notes when due.

The Notes are unsecured obligations

The Notes are unsecured obligations of the Issuer. Payments under the Notes may be adversely affected if:

- the Issuer or a third party to which we have provided a guarantee enters into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under the Issuer’s future secured indebtedness; or
- there is an acceleration of the indebtedness of the Issuer or a third party to which we have provided a guarantee.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control

Our ability to make payments on and to refinance our indebtedness, including these Notes, and to fund our operations will depend on our ability to generate cash. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Our business might not generate cash flow from operations in an amount sufficient to enable us to pay our indebtedness, including the Notes, or to fund our other liquidity needs. Furthermore, any depreciation in the Togrog will effectively result in higher costs for us to pay interest on the Notes, for which we will need a higher amount of cash flow, as we will not hedge against such depreciation. We may need to refinance all or a portion of our indebtedness, including the Notes, on or before maturity. We may not be able to refinance any of our indebtedness on commercially reasonable terms or at all.

If we are unable to comply with the terms of the indenture or our existing or future debt agreements, there could be a default under those agreements, which could cause repayment of our debt to be accelerated

If we are unable to comply with the terms in the indenture or our existing or future debt obligations and other agreements, there could be a default under those agreements. If that occurs, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, the indenture contains, and our future debt agreements are likely to contain, cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under our other debt agreements, including the indenture. If any of these events occur, our assets and cash flow might not be sufficient to repay in full all of our indebtedness and we might not be able to find alternative financing. Even if we could obtain alternative financing, it might not be on terms that are favorable or acceptable to us.

The insolvency laws of Mongolia may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar

Because the Issuer is incorporated under the laws of Mongolia, an insolvency proceeding relating to the Issuer, even if brought in the United States, would likely involve Mongolian insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law or other jurisdictions with which the holders of the Notes are familiar. We conduct substantially all of our business operations in Mongolia. You should analyze the risks and uncertainties carefully before you invest in our Notes.

The liquidity and price of the Notes following the offering may be volatile

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and acquisitions, interest rates, the general state of the securities market and fluctuations in price for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes

The Notes are a new issue of securities for which there is currently no trading market. Although approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST, an active trading market in the Notes may not develop or be maintained after listing. If no active trading market develops, you may not be able to resell your Notes at their fair market value or at all. Future trading prices of the Notes will depend on many factors, including prevailing interest rates, our operating results and the market for similar securities, which are beyond our control. Disruptions in the global capital markets may lead to reduced liquidity, increased credit risk premiums and a reduction in investment in securities.

In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See “Transfer Restrictions.” We cannot predict whether an active trading market for the Notes will develop or be sustained. If an active trading market for the Notes does not develop or is not sustained, the market price and liquidity of the Notes may be adversely affected.

The transfer of the Notes is restricted, which may adversely affect their liquidity and the price at which they may be sold

The Notes have not been registered under, and we are not obligated to register the Notes under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See “Plan of Distribution” and “Transfer Restrictions.” We have not agreed to or otherwise undertaken to register the Notes with the SEC or the securities regulatory authority of any other jurisdiction, and we have no intention of doing so.

The Notes have been rated and credit ratings may not reflect all risks

The Notes are expected to be rated B3 by Moody’s and B by S&P. As a result of the offering of the Notes, the Issuer’s stand-alone credit profile may be downgraded. To the extent that any credit rating agencies assign credit ratings to the Notes, or to the Bank, such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A rating may not remain for any given period of time and could be lowered or withdrawn entirely by the relevant rating agency. A credit rating or the absence of a rating is not a recommendation to buy, sell or hold Notes and may be revised or withdrawn by the relevant rating agency at any time, which may adversely affect the market price of the Notes. We have no obligations to inform holders of the Notes of any such revision, suspension or withdrawal.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global notes representing the Notes will trade in book-entry form only, and notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes for purposes of the indenture. For so long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be the sole registered holder of the global notes. Accordingly, you must rely on the procedures of the participants through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the indenture. Upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued with respect to all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and/or Clearstream. The procedures to be implemented through Euroclear and/or Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See “Description of the Notes — Book-Entry; Delivery and Form.”

We will follow the applicable corporate disclosure standards for debt securities listed and quoted on the SGX-ST, which standards may be different from those applicable to debt securities listed in certain other countries

For so long as the Notes are listed on the SGX-ST, we will be subject to continuing listing obligations in respect of the Notes. The disclosure standards imposed by the SGX-ST may be different from those imposed by securities exchanges in other countries such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

Disclosure standards that apply to us may differ from those in the United States or other jurisdictions

Our financial information is prepared in accordance with IFRS, which differs in certain respects from U.S. GAAP. As a result, our financial information and reported earnings could be significantly different if they were prepared in accordance with U.S. GAAP. We have made no attempt to quantify the impact of those differences. This Offering Memorandum does not contain reconciliation of our financial information to U.S. GAAP, and we cannot assure you that such reconciliation would not reveal material differences. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and U.S. GAAP, and how these differences might affect the financial information herein.

The Letter of Support is not a guarantee and does not contain any legally binding obligations of the Bank of Mongolia in relation to the Notes

The Letter of Support from the Bank of Mongolia is not a guarantee, nor does it represent legally binding obligations, of the Bank of Mongolia in relation to the Notes. The Bank of Mongolia is not a shareholder of the Bank, and the Letter of Support is not intended to be legally binding and will not create any legally binding obligations on the Bank of Mongolia, and in particular, is not and should not be construed as or be deemed to constitute direct or indirect guarantee by the Bank of Mongolia to any party of the payment of the interest, principal or any additional amounts under the Notes. Accordingly, there is no assurance that the Bank of Mongolia will be able to provide support to us in the manner contemplated by the Letter of Support, or at all. In addition, neither the Trustee nor you nor any other person will be able to bring any action against the Bank of Mongolia to enforce the Letter of Support.

The Notes may not be a suitable investment for all investors seeking exposure to “development finance” assets

There is currently no market consensus on what precise attributes are required for a particular project or financing to be defined as “green,” “sustainable” or “development,” and therefore no assurance can be provided to investors that the Notes and the use of proceeds by the Issuer or any development impact projects, will satisfy, whether in whole or in part, any expectations or requirements of any investor or any present or future expectations or requirements with respect to development finance, green bonds or sustainability. Neither the Issuer, the Development Finance Structuring Agent nor the Initial Purchasers makes any representations or assurances as to whether (and are not responsible for ensuring that) the characterization of the Notes as development finance or the level of its expected development intensity rating impact will (i) comport with any investor’s definition of green, sustainable or development finance, (ii) meet any investor’s criteria and expectations with regard to developmental impact, or (iii) comport with the characterization or definitions used by any other development finance institution in the public or private sectors.

The Notes may be issued with original issue discount for U.S. federal income tax purposes

If the Notes are issued with original issue discount, in addition to the stated cash interest on such Notes, U.S. Holders (as defined under “Taxation — Certain U.S. Federal Income Tax Considerations”) will generally be required to include the amounts representing the original issue discount in gross income on a constant yield basis in advance of receipt of the cash payments to which such income is attributable. See “Taxation — Certain U.S. Federal Income Tax Considerations.”

The market value of the Notes may be adversely affected if additional notes are considered to have OID (or a greater amount of OID) and are not distinguishable from the Notes

The Issuer may issue additional notes (“Additional Notes”) as described under “Description of the Notes.” These Additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the Additional Notes may be considered to have OID (or a greater amount of OID) which may adversely affect the market value of the original Notes as it will not be possible to distinguish the original Notes from the Additional Notes.

USE OF PROCEEDS

The gross proceeds from this offering, before deducting fees, commissions and other estimated expenses payable in connection with this offering, are US\$292,623,000. With the proceeds of the Notes, the Issuer is eligible to request a long-term swap agreement with the Bank of Mongolia. The Issuer plans to request a long-term swap agreement with the Bank of Mongolia to swap all USD proceeds from this offering to MNT to finance our ordinary business operations including lending operations.

CAPITALIZATION

The following table shows our capitalization and indebtedness as of December 31, 2023 on an actual basis under IFRS and on an as-adjusted basis to show the issue of the Notes and the application of the proceeds therefrom.

The as adjusted information below is illustrative only and does not take into account any changes in our borrowings and capitalization after December 31, 2023.

You should read this table in conjunction with our financial statements and the notes thereto included elsewhere in this Offering Memorandum and the sections in this Offering Memorandum entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Use of Proceeds.”

	As of December 31, 2023			
	Actual		As Adjusted	
	(MNT millions)	(US\$ millions)	(MNT millions)	(US\$ millions)
Liabilities				
Due to other banks	130,991.9	38.4	130,991.9	38.4
Customer accounts	8,036,633.7	2,356.3	8,036,633.7	2,356.3
Other borrowed funds	1,410,928.7	413.7	1,410,928.7	413.7
REPO arrangements.	711,674.2	208.7	711,674.2	208.7
Current income tax liability	42,008.6	12.3	42,008.6	12.3
Derivative financial liabilities	2,890.9	0.8	2,890.9	0.8
Lease liabilities.	17,390.4	5.1	17,390.4	5.1
Other liabilities.	204,235.2	59.9	204,235.2	59.9
The Notes.	—	—	997,967.9	292.6
Total liabilities	10,556,753.5	3,095.2	11,554,721.5	3,387.8
Equity attributable to equity holders of the bank				
Share capital.	202,164.3	59.3	202,164.3	59.3
Share premium	301,481.1	88.4	301,481.1	88.4
Retained earnings	460,718.1	135.1	460,718.1	135.1
Other reserves.	106,727.2	31.3	106,727.2	31.3
Total equity.	1,071,090.7	314.0	1,071,090.7	314.0
Total liabilities and equity.	11,627,844.2	3,409.2	12,625,812.2	3,701.8

Except as disclosed in this Offering Memorandum, there have been no material adverse changes in our total capitalization since December 31, 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our selected financial and operating data and our financial statements and related notes as of and for the years ended December 31, 2021, 2022 and 2023 included elsewhere in this Offering Memorandum. These financial statements have been prepared in accordance with IFRS, which differs in certain respects from U.S. GAAP. The discussion contains forward-looking statements and reflects our current view with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth under "Risk Factors" and elsewhere in this Offering Memorandum.

OVERVIEW

We are a leading banking and financial services provider in Mongolia, offering a wide range of commercial banking services to corporate, small and medium-sized enterprise ("SME") and retail customers. We are one of the largest banks in Mongolia with total assets of MNT11,627,844.2 million (US\$3,409.2 million) and total equity of MNT1,071,090.7 million (US\$314.0 million) as of December 31, 2023. As of December 31, 2023, we had over one million customers, representing approximately 32% of Mongolia's population.

Given our size, scale and significant and fundamental presence in the Mongolian banking sector and overall economy, we are a domestic systemically important bank in Mongolia. As of December 31, 2023, according to our internal data, the Bank of Mongolia and the international SWIFT watch report, we had market share of 25.2%, 18.8%, 68.5% and 45.2% in terms of corporate and SME deposits, corporate and SME loans, foreign guarantees and letter of credits by amount as well as the number of funds our custodian banking serves in the Mongolian banking system, respectively. As of December 31, 2023, according to our internal data and the Bank of Mongolia, we had market share of 24.4%, 16.5%, 47.6%, 15.8% and 71.0% for retail services such as mortgage loans, individual loans, credit card loans, individual deposits and online retail transactions, respectively. As of December 31, 2023, according to our internal data and the Bank of Mongolia, we had market share of 20.1%, 17.5% and 20.0% measured by total assets, total loan amounts and total deposits, respectively. We are headquartered in Ulaanbaatar and all of our operations are conducted in Mongolia. As of December 31, 2023, we operated a network of 75 branches, including 48 branches located in Ulaanbaatar and 27 in rural areas. We also operate one of the largest ATM networks in Mongolia with 420 ATMs and CDMs.

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our business and historical financial condition and results of operations have been, and will continue to be, affected by a number of important factors, including the following:

The Mongolian Economy

All of our business is located in Mongolia. As a result, we believe that demand for our services, our financial condition and results of operations are affected by changes in various external factors relating to the operating environment in Mongolia, including the rate of overall economic development, levels of imports to and exports from Mongolia, foreign direct investment, foreign exchange reserves, residential property construction expansion and rising standards of living in Mongolia. From 2011 through 2022, Mongolia experienced average real GDP growth of 6.5% per annum. From 2020 to 2022, the COVID-19 pandemic has adversely affected Mongolian economy. In 2021, 2022 and 2023, Mongolia experienced real GDP growth of 1.6%, 5.0% and 7.0%, respectively.

Our results of operations have been affected by the Mongolian economic environment. Macroeconomic factors such as currency depreciation have the potential to negatively affect the Mongolian economy as a whole, which may further impact the ability of mortgage borrowers to repay their loans.

Competition

The Mongolian banking sector is highly competitive. We compete with other Mongolian commercial banks for both customer deposits and high-quality borrowers in Mongolia. Recently, the banking industry in Mongolia has consolidated, with several major banks accounting for a significant portion of the market share. As of December 31, 2023, the Mongolian banking sector consisted of 12 commercial banks. We compete primarily with commercial banks operating in Mongolia. We also face competition from non-bank financial institutions in Mongolia. We compete with our competitors mainly on product offerings and services, brand recognition, distribution networks and information technology capabilities. The increase in competition in the Mongolia banking industry may affect the pricing of our services.

Changes in exchange rates and interest rates

We receive foreign currency income from our trade and investment-related businesses, and the value of such foreign currency income is subject to the exchange rate fluctuation of the foreign currencies against the Tugrik. In addition, we hold assets and liabilities denominated in foreign currencies, and may experience revaluation gains or losses subject to the exchange rate fluctuation of the foreign currencies against the Tugrik. These fluctuations affect, among other things, the demand for our products and services, the value and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The Tugrik has fluctuated against the U.S. dollar for recent years. As of December 31, 2021, 2022 and 2023, the Tugrik to U.S. dollar exchange rate was MNT2,848.80 to US\$1.00, MNT3,444.60 to US\$1.00, and MNT3,410.69 to US\$1.00, respectively. While the Government has taken, or may take, measures, including raising the policy rate, in response to the Tugrik's depreciation, if the Tugrik depreciates significantly at any time when we have a significant net open borrowing position denominated in foreign currencies, such depreciation could cause us to suffer losses, reduce our capital adequacy ratio and require us to seek additional capital or breach capital adequacy regulations set by the Bank of Mongolia.

Our results of operations largely depend on our net interest income. Net interest income is affected by interest rates and the balance of our interest-earning assets and interest-bearing liabilities. Interest rates applicable to us are sensitive to many factors that are beyond our control, such as regulations in the banking and financial sectors in Mongolia, domestic and international economic and political conditions, as well as competition. The Bank of Mongolia cut the policy rate from 11.0% at the beginning of 2020 to 6.0% in November 2020 in response to the COVID-19 pandemic, and the rate remained at 6.0% until the beginning of 2022. However, to curb rising inflation and address other economic and financial risks, the policy rate was raised to 13.0% in December 2022, and has been lowered to 12.0% through the Monetary Policy Committee's most recent meeting in March 2024. Any further adjustments to the Bank of Mongolia's policy rate will impact our interest rates.

Regulatory Environment

Government regulations impacting the Mongolian banking sector affect our business and results of operations significantly. Our industry is heavily regulated and our results of operations and financial condition are affected by the Government's policies as well as Mongolian laws and regulations. We are subject to significant Government oversight and, from time to time, the Government adjusts its policies to encourage or restrict lending activities, modify rules related to borrower loan concentrations, adjust capital adequacy requirements and generally ensure the safety of the Mongolian banking sector.

For example, Government subsidies such as those provided under the Affordable Housing Finance Program ("AHFP") and the Pricing Stabilization Program contributed to the increase in market lending activity from 2012 onwards. The AHFP has been implemented since 2013 and provides Mongolian citizens with housing mortgage loans with a subsidized interest rate of 6.0% per annum for a maximum of 30 years for the purchase of an apartment of up to 80.0 square meters.

DESCRIPTION OF SELECTED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME LINE ITEMS

Interest Income and Other Similar Income

Interest Income Calculated Using the Effective Interest Method

Interest income has historically been the largest component of our operating income. We derive our interest income calculated using the effective interest method principally from loans and advances to customers, debt securities, interest due from other banks, cash deposited with the Bank of Mongolia and interest from reverse repurchase agreements. The following table sets forth our interest income for the periods indicated:

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Loans and advances to customers at amortized cost.	405,726.6	443,987.2	584,199.1	171.3
Debt securities at fair value through other comprehensive income.	90,177.8	88,493.9	158,473.0	46.5
Due from other banks at amortized cost. . .	21,178.6	22,922.9	25,015.8	7.3
Cash deposited in the Bank of Mongolia . .	8,343.5	20,131.2	22,961.7	6.7
Debt securities at amortized cost.	629.4	608.8	512.6	0.2
Reverse repurchase agreements at amortized cost.	430.3	240.9	1,547.9	0.5
Total interest income calculated using the effective interest method	526,486.2	576,384.9	792,710.2	232.4

Other similar income

Our other similar income include interest from loans and advances to customers at fair value through profit or loss and debt securities at fair value through profit or loss. The following table sets forth our other similar income for the periods indicated:

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Loans and advances to customers at fair value through profit or loss	15,333.2	16,829.6	24,155.7	7.1
Debt securities at fair value through profit or loss	12,958.3	16,694.6	23,866.7	7.0
Total other similar income	28,291.4	33,524.2	48,022.4	14.1

Interest and Other Similar Expense

Our interest expense primarily consists of interest paid on customer accounts, other borrowed funds, due to other banks and repurchase agreements. Our other similar expense includes expense on lease liabilities. The following table sets forth our interest and other similar expense for the periods indicated:

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Interest expense				
— Customer accounts	219,370.5	149,218.4	271,817.9	79.7
— Other borrowed funds	43,690.2	57,326.4	74,825.7	21.9
— Due to other banks	1,165.6	2,259.8	1,398.4	0.4
— Repurchase agreement	7,031.7	14,052.6	13,539.1	4.0
Other similar expense				
— Interest expense related to lease liabilities	1,560.6	1,481.2	1,859.4	0.5
Total Interest and other similar expense	272,818.5	224,338.4	363,440.4	106.6

Net Interest Income

Net interest income is equal to interest income less interest and other similar expense. The following table sets forth our net interest income for the periods indicated:

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Interest income and other similar income . .	554,777.6	609,909.2	840,732.6	246.5
Interest and other similar expense	(272,818.5)	(224,338.4)	(363,440.4)	(106.6)
Net interest income	281,959.1	385,570.8	477,292.1	139.9

Expected Credit Loss

The reversal or charge of expected credit loss for loans and advances to customers is impacted by a variety of factors, including significant increases or decreases of credit risks, changes in probability of defaults and foreign exchange translations of assets denominated in foreign currency and other movements. Our charge of expected credit loss in 2021 and 2022 was MNT35,770.5 million and MNT45,969.5 million, respectively, and our reversal of expected credit loss in 2023 was MNT28,074.7 million (US\$8.2 million).

Fee and Commission Income

Our fee and commission income consist of commissions on operations with plastic cards, remittance and other service fees, commissions on documentary business and guarantees, account service fee and commissions and brokerage and other service fee. The following table sets forth our fee and commission income for the periods indicated:

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Commissions on operations with plastic cards	34,959.2	48,568.1	56,561.2	16.6
Remittance and other service fees	16,350.1	24,130.5	27,511.6	8.1
Commissions on documentary business and guarantees.	7,226.2	6,174.7	12,620.8	3.7
Account service fee and commissions	3,558.2	4,952.1	5,142.1	1.5
Brokerage and other service fee.	399.5	306.6	335.3	0.1
Total fee and commission income	62,493.1	84,132.0	102,170.9	30.0

Fee and Commission Expenses

Our fee and commission expenses consist of commissions on operations with plastic cards, bank service expense, online transaction expense and brokerage and other service fee. The following table presents our fee and commission expenses for the periods indicated:

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Commissions on operations with plastic cards	16,882.8	33,549.3	45,995.1	13.5
Bank service expense	3,455.7	4,904.5	12,233.6	3.6
Online transaction expense	1,024.1	1,388.4	1,883.8	0.6
Brokerage and other service fee.	351.7	119.0	77.9	—
Total fee and commission expenses	21,714.2	39,961.2	60,190.4	17.6

Administrative and Other Operating Expenses

Our operating expenses comprise primarily (i) staff costs, which consists primarily of salaries, wages and bonus, contribution to social and health fund, share-based payments, staff benefits, pension fund and staff training; (ii) information, consulting and other professional services; (iii) depreciation of premises and equipment; (iv) depreciation of right of use of assets; (v) amortization of software and other intangible assets; (vi) advertising and marketing services; (vii) stationery expense; (viii) security expense; (ix) taxes (other than income tax); and (x) loan collection expenses and other expenses.

The following table presents our administrative and other operating expenses for the periods indicated:

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Administrative and Other Operating expenses:				
Staff costs	51,099.5	64,373.0	84,251.9	24.7
Information, consulting and other professional services	30,546.1	38,997.0	34,057.7	10.0
Depreciation of premises and equipment . .	19,270.6	21,411.5	22,130.4	6.5
Depreciation of right of use assets	5,284.9	5,666.0	6,890.5	2.0
Amortization of software and other intangible assets	3,837.6	6,063.3	6,368.8	1.9
Advertising and marketing services	3,491.9	6,073.0	5,308.5	1.6
Stationery expense	2,927.5	3,495.6	4,192.8	1.2
Security expense	2,711.4	2,326.9	2,542.1	0.7
Taxes (other than income tax)	2,266.8	2,100.9	3,183.7	0.9
Loan collection expenses	2,084.9	2,010.5	2,288.0	0.7
Telecommunications expense	1,828.3	2,181.4	2,853.0	0.8
Short term lease expense	1,397.3	1,923.9	1,428.6	0.4
Office cleaning expense	1,166.4	1,502.6	2,183.4	0.6
Utilities	1,070.3	1,447.0	1,870.1	0.5
Voluntary and mandatory insurance	1,053.0	1,055.3	1,230.5	0.4
Transportation	1,263.6	1,904.9	2,050.5	0.6
Entertainment	572.9	1,274.1	1,577.0	0.5
Travelling expenses	78.0	735.6	1,566.1	0.5
Donations	31.0	386.8	891.4	0.3
Customer engagement expenses ⁽¹⁾	—	3,375.3	5,923.6	1.7
Other operating expenses	5,158.0	7,041.3	7,370.5	2.2
Administrative and Other Operating expenses	137,139.6	175,345.9	200,159.3	58.7

(1) Due to certain presentation changes introduced during preparation of 2023 Financial Statements, Customer engagement expense line was distinguished from other operating expense, although this changes was not introduced retrospectively to 2021 numbers, thus those periods may not be fully comparable.

Income Tax Expense

Our income tax expense consists primarily of current income tax and deferred tax relating to the origination of temporary differences. 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 basis. The following table presents our income tax expenses for the periods indicated:

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Current income tax	30,465.0	53,291.9	98,112.7	28.8
Deferred tax	(3,830.8)	24,004.0	(41,248.6)	(12.1)
	<u>26,634.2</u>	<u>77,295.9</u>	<u>56,864.1</u>	<u>16.7</u>

We provide 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. In 2021, 2022 and 2023, our income tax rate for profits is 10.0% for the first MNT6.0 billion of taxable income and 25.0% on the excess of taxable income over MNT6.0 billion.

Our effective income tax rates for 2021, 2022 and 2023 were 50.7%, 39.9% and 21.4%, respectively. The decrease in effective income tax rates from 2021 and 2023 was primarily due to an increase in our profit before tax. A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at our effective income tax rate for the years ended in the timeframes below is set out below:

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Profit before tax	<u>52,570.9</u>	<u>193,798.0</u>	<u>266,035.1</u>	<u>78.0</u>
Tax at statutory rate of 25%	13,142.7	48,449.5	66,508.8	19.5
Effect of expenses not deductible for tax purposes				
— Effect of income subject to lower tax rate	(900.0)	(900.0)	(900.0)	(0.3)
— Income which is exempt from taxation .	(2,250.4)	(2,393.9)	(3,858.4)	(1.1)
— Income which is taxed at different rates	(351.1)	(500.5)	(851.2)	(0.2)
— Non-deductible expenses	1,524.5	1,469.6	964.9	0.3
Unrecognized deferred tax assets	<u>15,468.5</u>	<u>31,171.2</u>	<u>(5,000.0)</u>	<u>(1.5)</u>
Tax expense for the year	<u>26,634.2</u>	<u>77,295.9</u>	<u>56,864.1</u>	<u>16.7</u>

Our profit for the year was MNT25,936.7 million, MNT116,502.0 million and MNT209,171.0 million (US\$61.3 million) for 2021, 2022 and 2023, respectively.

RESULTS OF OPERATIONS

2023 Compared to 2022

Interest and other similar income

Interest and other similar income by segment

Our interest and other similar income from our corporate segment increased by 29.4% from MNT129,239.9 million for 2022 to MNT167,189.4 million (US\$49.0 million) for 2023, primarily due to an increase in our corporate loan portfolio and an increase in the policy rate which results in higher interest rate.

Our interest and other similar income from our SME segment increased by 24.2% from MNT117,194.7 million for 2022 to MNT145,514.1 million (US\$42.7 million) for 2023, primarily due to an increase in our SME loan portfolio and an increase in policy rate which results in higher interest rate.

Our interest and other similar income from our retail segment increased by 42.9% from MNT199,020.7 million for 2022 to MNT284,480.2 million (US\$83.4 million) for 2023, primarily due to an increase in our retail loan portfolio and an increase in policy rate which results in higher interest rate.

Our interest and other similar income from our other segment increased by 48.1% from MNT164,453.9 million for 2022 to MNT243,548.9 million (US\$71.4 million) for 2023, primarily due to an increase in our investments in debt securities and central bank bills as well as an increase in policy rate which results in higher interest rate.

Interest income calculated using the effective interest method

Our interest income calculated using the effective interest method increased by 37.5% from MNT576,384.9 million for 2022 to MNT792,710.2 million (US\$232.4 million) for 2023. The increase in interest income was primarily attributable to an increase of MNT140,211.9 million (US\$41.1 million) in interest income from loans and advances to customers at amortized cost and an increase of MNT69,979.0 million (US\$20.5 million) in debt securities FVTOCI.

(a) Interest income from loans and advances to customers at amortized cost

Our interest income from loans and advances to customers at amortized cost increased by 31.6% from MNT443,987.2 million for 2022 to MNT584,199.1 million (US\$171.3 million) for 2023, primarily due to a rapid expansion of our total loan size and an increase in average rate of interest-earning assets as a result of increased policy rate by the Bank of Mongolia.

(b) Interest income from debt securities FVTOCI

Our interest income from debt securities FVTOCI increased by 79.1% from MNT88,493.9 million for 2022 to MNT158,473.0 million (US\$46.5 million) for 2023, primarily due to an increase in our investment in the USD-denominated bonds issued by the Government of Mongolia.

(c) Interest income from due from other banks at amortized cost

Our interest income from due from other banks at amortized cost increased by 9.1% from MNT22,922.9 million for 2022 to MNT25,015.8 million (US\$7.3 million) for 2023, primarily due to an increase in both domestic and international banks' saving rates.

(d) Interest income from cash deposited in the Bank of Mongolia

Our interest income from cash deposited in the Bank of Mongolia increased by 14.1% from MNT20,131.2 million for 2022 to MNT22,961.7 million (US\$6.7 million) for 2023, primarily due to an increase in customer deposits and subsequent increase in statutory reserve at the Bank of Mongolia.

(e) Interest income from debt securities at amortized cost

Our interest income from debt securities at amortized cost decreased by 15.8% from MNT608.8 million for 2022 to MNT512.6 million (US\$0.2 million) for 2023, primarily due to a decrease in debt securities at amortized cost portfolio.

(f) Interest income from reverse repurchase agreements at amortized cost

Our interest income from reverse repurchase agreements at amortized cost increased by 542.6% from MNT240.9 million for 2022 to MNT1,547.9 million (US\$0.5 million) for 2023, primarily due to an increase in repo arrangements.

Other similar income

Our other similar income increased by 43.2% from MNT33,524.2 million for 2022 to MNT48,022.4 million (US\$14.1 million) for 2023, primarily because an increase of MNT7,326.0 million (US\$2.1 million) in other similar income from loans and advances to customers at FVTPL and an increase of MNT7,172.1 million (US\$2.1 million) in debt securities FVTPL.

(a) Other similar income from loans and advances to customers at FVTPL

Our other similar income from loans and advances to customers at FVTPL increased by 43.5% from MNT16,829.6 million for 2022 to MNT24,155.7 million (US\$7.1 million) for 2023, primarily due to an increase in loan rates due to the increase of policy rate.

(b) Other similar income from debt securities FVTPL

Our other similar income from debt securities FVTPL increased by 43.0% from MNT16,694.6 million for 2022 to MNT23,866.7 million for 2023, primarily due to an increase in debt securities at FVTPL portfolio, including the increase in our holding of residential mortgage-backed securities issued by Mongolian Mortgage Corporation and government bonds.

Interest and other similar expense

Our interest and other similar expense increased by 62.0% from MNT224,338.4 million for 2022 to MNT363,440.4 million (US\$106.6 million) for 2023, primarily attributable to an increase in interest paid on customer deposits by MNT122,599.5 million (US\$35.9 million) and an increase in interest payments on other borrowed funds by MNT17,499.3 million (US\$5.1 million).

Interest and other similar expense by segment

Our interest and other similar expense from our corporate segment increased by 159.5% from MNT21,730.6 million for 2022 to MNT56,399.1 million (US\$16.5 million) in 2023, primarily due to an increase of our corporate customer accounts and our resumption to pay interest expense on current accounts and demand deposits after January 1, 2023 following the end of COVID-19 policy which prohibits interest to be paid for any type of current account and demand deposit during the pandemic.

Our interest and other similar expense from our SME segment increased by 72.2% from MNT13,999.9 million for 2022 to MNT24,121.3 million (US\$7.1 million) for 2023, primarily due to an increase of our SME deposits and our resumption to pay interest expense on current accounts and demand deposits after January 1, 2023 after the end of COVID-19 policy which prohibits interest to be paid for any type of current account and demand deposit during the pandemic.

Our interest and other similar expense from our retail segment increased by 60.0% from MNT125,094.6 million for 2022 to MNT200,108.1 million (US\$58.7 million) for 2023, primarily due to an increase of our retail deposits and our resumption to pay interest expense on current accounts and demand deposits after January 1, 2023 after the end of COVID-19 policy which prohibits interest to be paid for any type of current account and demand deposit during the pandemic.

Our interest and other similar expense from our other segment increased by 30.4% from MNT63,513.3 million for 2022 to MNT82,812.0 million (US\$24.3 million) for 2023, primarily due to an increase in U.S. federal funds interest rates and subsequent increase in interest rates of borrowings from foreign banks and financial institutions.

Interest expense on customer accounts

Our interest expense on customer accounts increased by 82.2% from MNT149,218.4 million for 2022 to MNT271,817.9 million (US\$79.7 million) for 2023, primarily due to the start of the interest payments on the current and demand deposits and a large increase in customer funds.

Interest expense on other borrowed funds

Our interest expense on other borrowed funds increased by 30.5% from MNT57,326.4 million for 2022 to MNT74,825.7 million (US\$21.9 million) for 2023, primarily due to an increase in U.S. federal funds interest rates and subsequent increase in interest rates of borrowings from foreign banks and financial institutions.

Interest expense on due to other banks

Our interest expense on due to other banks decreased by 38.1% from MNT2,259.8 million for 2022 to MNT1,398.4 million (US\$0.4 million) for 2023, primarily due to the maturity of US\$100 million deposit at foreign banks.

Interest expense on repurchase agreements

Our interest expense on repurchase agreements decreased by 3.7% from MNT14,052.6 million for 2022 to MNT13,539.1 million (US\$4.0 million) for 2023, primarily due to a decrease in average balance of repurchase agreement.

Interest expense on lease liabilities

Our interest expense on lease liabilities increased by 25.5% from MNT1,481.2 million for 2022 to MNT1,859.4 million (US\$0.5 million) for 2023, primarily due to an increase in average balance of lease liabilities.

Net interest income

As a result of the foregoing, our net interest income increased by 23.8% from MNT385,570.8 million for 2022 to MNT477,292.1 million (US\$139.9 million) for 2023.

Fee and commission Income

Our fee and commission income increased by 21.4% from MNT84,132.0 million for 2022 to MNT102,170.9 million (US\$30.0 million) for 2023, primarily because an increase of MNT7,993.1 million (US\$2.3 million) in commissions on operations with plastic cards and an increase of MNT3,381.1 million (US\$1.0 million) in remittance and other service fees and in commissions on documentary business and guarantees.

Fee and commission income by segment

Our fee and commission income from our corporate segment remained stable at MNT12,770.9 million for 2022 and MNT12,759.7 million (US\$3.7 million) for 2023.

Our fee and commission income from our SME segment increased by 7.2% from MNT31,761.1 million for 2022 to MNT34,048.5 million (US\$10.0 million) for 2023, primarily due to an increase of SME loan balance and customer accounts.

Our fee and commission income from our retail segment increased by 40.5% from MNT39,063.0 million for 2022 to MNT54,872.4 million (US\$16.1 million) for 2023, primarily due to an increase of our retail loan balance and customer accounts.

Our fee and commission income from our other segment remained stable at MNT537.0 million for 2022 and MNT490.2 million (US\$0.1 million) for 2023.

Fee and commission expenses

Our fee and commission expenses increased by 50.6% from MNT39,961.2 million for 2022 to MNT60,190.4 million (US\$17.6 million) for 2023. The increase in fee and commission expenses was primarily attributable to an increase in expense on commissions on operations with plastic cards due to an expansion of our card business and increased customer transaction as well as an increase of wiring expenses of the Bank of Mongolia cards.

Fee and commission expense by segment

Our fee and commission expense from our corporate segment increased from nil for 2022 to MNT9,419.0 million (US\$2.8 million) for 2023, primarily due to increased card related expenses and customer transactions.

Our fee and commission expense from our SME segment increased by 1,106.9% from MNT1,367.3 million for 2022 to MNT16,502.6 million (US\$4.8 million) for 2023, primarily due to increased card related expenses and customer transactions.

Our fee and commission expense from our retail segment remained stable at MNT28,614.9 million for 2022 and MNT28,427.9 million (US\$8.3 million) for 2023.

Our fee and commission expense from our other segment decreased by 41.5% from MNT9,978.9 million for 2022 to MNT5,840.8 million (US\$1.7 million) for 2023, primarily due to the change of our internal methodology of cost allocation of segment.

Administrative and other operating expenses

Our administrative and other operating expenses increased by 14.2% from MNT175,345.9 million for 2022 to MNT200,159.3 million (US\$58.7 million) for 2023, primarily because an increase in staff costs due to high inflation in Mongolia and an increase in depreciation of premises and equipment, partially offset by a decrease in the costs of consulting and professional services incurred since we completed our IPO in 2022.

Administrative and other operating expense by segment

Our administrative and other operating expense from corporate segment increased by 55.9% from MNT26,691.6 million for 2022 to MNT41,619.5 million (US\$12.2 million) for 2023, primarily due to increased salary expense, business trip, maintenance and renovation expenses after COVID-19 recovery and the Bank started to pay deposit insurance fee on foreign currency deposit from January 1, 2023 after the COVID law ended by the end of 2022.

Our administrative and other operating expense from SME segment increased by 57.1% from MNT31,945.3 million for 2022 to MNT50,186.5 million (US\$14.7 million) for 2023, primarily due to increased salary expense, business trip and maintenance and renovation expenses and the Bank started to pay insurance fee on foreign currency deposit from January 1, 2023 after the COVID law ended by the end of 2022.

Our administrative and other operating expense from retail segment remained stable at MNT105,125.7 million for 2022 and MNT100,374.8 million (US\$29.4 million) for 2023.

Our administrative and other operating expense from other segment decreased by 31.1% from MNT11,583.4 million for 2022 to MNT7,978.4 million (US\$2.3 million) for 2023, primarily due to an increase in operating expense after COVID-19.

Income tax expense

Our income tax expense decreased by 26.4% from MNT77,295.9 million for 2022 to MNT56,864.1 million (US\$16.7 million) for 2023. The decrease in income tax expense was primarily attributable to origination of temporary differences under deferred taxes.

Profit for the year

As a result of the foregoing, our profit for the year increased by 79.5% from MNT116,502.0 million for 2022 to MNT209,171.0 million (US\$61.3 million) for 2023.

2022 Compared to 2021

Interest and other similar income

Interest and other similar income by segment

Our interest and other similar income from our corporate segment decreased by 13.3% from MNT149,137.2 million for 2021 to MNT129,239.9 million for 2022, primarily due to a decrease in our corporate loan portfolio.

Our interest and other similar income from our SME segment increased by 20.8% from MNT96,996.4 million for 2021 to MNT117,194.7 million for 2022, primarily due to an increase in our SME loan portfolio.

Our interest and other similar income from our retail segment increased by 16.3% from MNT171,085.6 million for 2021 to MNT199,020.7 million for 2022, primarily due to an increase in our retail loan portfolio.

Our interest and other similar income from our other segment increased by 19.6% from MNT137,558.4 million for 2021 to MNT164,453.9 million for 2022, primarily due to an increase in loan interest rate as the policy rate increased.

Interest income calculated using the effective interest method

Our interest income calculated using the effective interest method increased by 9.5% from MNT526,486.2 million for 2021 to MNT576,384.9 million for 2022. The increase in interest income was primarily attributable to increases in interest income from loans and advances to customers and cash deposited in the Bank of Mongolia.

(a) Interest income from loans and advances to customers at amortized cost

Our interest income from loans and advances to customers at amortized cost increased by 9.4% from MNT405,726.6 million for 2021 to MNT443,987.2 million for 2022, primarily due to increased interest rates on loans as the Bank of Mongolia increased its policy rate.

(b) Interest income from debt securities FVTOCI

Our interest income from debt securities FVTOCI decreased by 1.9% from MNT90,177.8 million for 2021 to MNT88,493.9 million for 2022, primarily due to a decrease in our interest income from treasury bills from the Bank of Mongolia due to a decrease in the balance of our treasury bill of the Bank of Mongolia.

(c) Interest income from due from other banks at amortized cost

Our interest income from due from other banks at amortized cost increased by 8.2% from MNT21,178.6 million for 2021 to MNT22,922.9 million for 2022, primarily due to an increase in our average volume of due from domestic banks, an increase in policy rates and an increase in correspondent account balances with other foreign banks.

(d) Interest income from cash deposited in the Bank of Mongolia

Our interest income from cash deposited in the Bank of Mongolia increased by 141.3% from MNT8,343.5 million for 2021 to MNT20,131.2 million for 2022, primarily due to an increase in average volume of placements with the Bank of Mongolia as a result of an increase in statutory reserve requirements at the Central Bank of Mongolia and an increase in policy rate from 6.0% to 13.0% during 2022.

(e) Interest income from debt securities at amortized cost

Our interest income from debt securities at amortized cost decreased by 3.3% from MNT629.4 million for 2021 to MNT608.8 million for 2022, primarily due to a decrease in average volume of MNT-denominated Government bonds, partially offset by a slight increase in our debt securities at amortized cost.

(f) Interest income from reverse repurchase agreements at amortized cost

Our interest income from reverse repurchase agreements at amortized cost decreased by 44.0% from MNT430.3 million for 2021 to MNT240.9 million for 2022, primarily due to a decrease in average volume of our repurchase agreements.

Other similar income

Our other similar income increased by 18.5% from MNT28,291.4 million for 2021 to MNT33,524.2 million for 2022, primarily because increases in other similar income from debt securities FVTPL and loans and advances to customers at FVTPL.

(a) Other similar income from loans and advances to customers at FVTPL

Our other similar income from loans and advances to customers at FVTPL increased by 9.8% from MNT15,333.2 million for 2021 to MNT16,829.6 million for 2022, primarily due to an increase in the balance of our loans and advances to customers at FVTPL.

(b) Other similar income from debt securities FVTPL

Our other similar income from debt securities FVTPL increased by 28.8% from MNT12,958.3 million for 2021 to MNT16,694.6 million for 2022, primarily due to an increase in the balance of our debt securities FVTPL including the increases in our holding of residential mortgage-backed securities issued by Mongolian Mortgage Corporation and SFC bonds.

Interest and other similar expense

Our interest and other similar expense decreased by 17.8% from MNT272,818.5 million for 2021 to MNT224,338.4 million for 2022. The decrease in interest and other similar expense was primarily attributable to a decrease in interest paid on customer deposits, partially offset by increase in interest payments on other borrowed funds.

Interest expense by segment

Our interest expense from our corporate segment decreased by 29.4% from MNT30,765.2 million for 2021 to MNT21,730.6 million for 2022, primarily due to our suspension of payment of interest expense on current accounts and demand deposits during 2022 as required by COVID-19 policy which prohibits interest to be paid for any type of demand deposit during the pandemic.

Our interest expense from our SME segment decreased by 45.8% from MNT25,808.4 million for 2021 to MNT13,999.9 million for 2022, primarily due to our suspension of payment of interest expense on current accounts and demand deposits during 2022 as required by COVID-19 policy which prohibits interest to be paid for any type of demand deposit during the pandemic.

Our interest expense from our retail segment decreased by 26.5% from MNT170,256.1 million for 2021 to MNT125,094.6 million for 2022, primarily due to our suspension of payment of interest expense on current accounts and demand deposits during 2022 as required by COVID-19 policy which prohibits interest to be paid for any type of demand deposit during the pandemic.

Our interest expense from our other segment increased by 38.1% from MNT45,988.8 million for 2021 to MNT63,513.3 million for 2022, primarily due to an increase in U.S. federal funds interest rates and subsequent increase in interest rates of borrowings from foreign banks and financial institutions.

Interest expense on customer accounts

Our interest expense on customer accounts decreased by 32.0% from MNT219,370.5 million for 2021 to MNT149,218.4 million for 2022, primarily due to the suspension of interest on current accounts and demand deposits as a result of COVID-19 policy which prohibits interest to be paid for any type of demand deposit during the pandemic.

Interest expense on other borrowed funds

Our interest expense on other borrowed funds increased by 31.2% from MNT43,690.2 million for 2021 to MNT57,326.4 million for 2022, primarily due to an increase in U.S. federal funds interest rates and subsequent increase in interest rates of borrowings from foreign banks and financial institutions as well as the depreciation of Tugrik against U.S. dollars.

Interest expense on due to other banks

Our interest expense on due to other banks increased by 93.9% from MNT1,165.6 million for 2021 to MNT2,259.8 million for 2022, primarily due to a significant increase in the balance of our due to other banks.

Interest expense on repurchase agreements

Our interest expense on repurchase agreements increased by 99.8% from MNT7,031.7 million for 2021 to MNT14,052.6 million for 2022, primarily due to an increase in the average balance our repurchase agreements.

Interest expense on lease liabilities

Our interest expense on lease liabilities decreased by 5.1% from MNT1,560.6 million for 2021 to MNT1,481.2 million for 2022, primarily due to low interest rates on lease agreements related to low policy rate.

Net interest income

As a result of the foregoing, our net interest income increased by 36.7% from MNT281,959.1 million for 2021 to MNT385,570.8 million for 2022.

Fee and commission income

Our fee and commission income increased by 34.6% from MNT62,493.1 million for 2021 to MNT84,132.0 million for 2022, primarily because increases in commissions on operations with plastic cards and remittance and other service fees, partially offset by a decrease in commissions on documentary business and guarantees.

Fee and commission income by segment

Our fee and commission income from our corporate segment increased by 39.2% from MNT9,171.5 million for 2021 to MNT12,770.9 million for 2022, primarily due to the our change of internal methodology of income allocation segment.

Our fee and commission income from our SME segment increased by 26.8% from MNT25,056.9 million for 2021 to MNT31,761.1 million for 2022, primarily due to an increase of our SME loan portfolio and customer accounts.

Our fee and commission income from our retail segment increased by 1,190.7% from MNT3,026.6 million for 2021 to MNT39,063.0 million for 2022, primarily due to the our change of internal methodology of income allocation segment.

Our fee and commission income from our other segment decreased by 97.9% from MNT25,238.2 million for 2021 to MNT537.0 million for 2022, primarily due to the our change in the internal methodology of income allocation of segment.

Fee and commission expenses

Our fee and commission expenses increased by 84.0% from MNT21,714.2 million for 2021 to MNT39,961.2 million for 2022. The increase in fee and commission expenses was primarily attributable to an increase in expense on commissions on operations with plastic cards due to expansion of card business and increased customer transactions.

Fee and commission expense by segment

Our fee and commission expense from our corporate segment were nil for 2021 and 2022, primarily due to the our change in the internal methodology of income allocation of segment.

Our fee and commission expense from our SME segment increased by 57.3% from MNT869.1 million for 2021 to MNT1,367.3 million for 2022, primarily due to the our change in the internal methodology of income allocation of segment and increased customer transactions.

Our fee and commission expense from our retail segment increased by 981.5% from MNT2,645.8 million for 2021 to MNT28,614.9 million for 2022, primarily due to our change in the internal methodology of income allocation of segment and increased card related expenses and increased customer transactions.

Our fee and commission expense from our other segment decreased by 45.1% from MNT18,199.3 million for 2021 to MNT9,978.9 million for 2022, primarily due to our change in the internal methodology of income allocation of segment and increased card related expenses and increased customer transactions.

Administrative and other operating expenses

Our administrative and other operating expenses increased by 27.9% from MNT137,139.6 million for 2021 to MNT175,345.9 million for 2022, primarily because an increase in staff costs due to high inflation in Mongolia and an increase in the costs of consulting and professional services incurred during our process of becoming a public company.

Administrative and other operating expenses by segment

Our administrative and other operating expenses from our corporate segment increased by 248.5% from MNT7,659.4 million for 2021 to MNT26,691.6 million for 2022, primarily due to an increase in expenses for consulting and professional services incurred during our IPO process in 2022 and the lower operating expenses in 2021 due to COVID restrictions.

Our administrative and other operating expenses from our SME segment increased by 56.1% from MNT20,458.1 million for 2021 to MNT31,945.3 million for 2022, primarily due to an increase in expenses for consulting and professional services incurred during our IPO process and the lower operating expenses in 2021 due to COVID restrictions.

Our administrative and other operating expenses from our retail segment increased by 150.5% from MNT41,958.5 million for 2021 to MNT105,125.7 million for 2022, primarily due to an increase in expenses for consulting and professional services incurred during our IPO process and the lower operating expenses in 2021 due to COVID restrictions.

Our administrative and other operating expenses from our other segment decreased by 82.7% from MNT67,063.6 million for 2021 to MNT11,583.4 million for 2022, primarily due to an increase in expenses for consulting and professional services incurred during our IPO process and the lower operating expenses in 2021 due to COVID restrictions.

Income tax expense

Our income tax expense increased by 190.2% from MNT26,634.2 million for 2021 to MNT77,295.9 million for 2022. The increase in income tax expense was primarily attributable to origination of temporary differences under deferred taxes.

Profit for the year

As a result of the foregoing, our profit for the year increased by 349.2% from MNT25,936.7 million for 2021 to MNT116,502.0 million for 2022.

CASH FLOWS

Historically, our cash resources have come from customer deposits, shareholder financing, bank loans and operating activities. We regularly monitor current and expected liquidity requirements and compliance with loan covenants to attempt to maintain sufficient reserves of cash to meet our liquidity requirements in the short and long term. Taking into consideration the financial resources available to us, including cash generated from our operating activities and the net proceeds of this offering, we believe that we will have sufficient liquidity to meet our working capital and operating requirements for at least the next 12 months.

The following table sets forth certain information regarding our cash flows for the periods indicated:

	Year Ended December 31,			
	2021	2022	2023	
	<i>(MNT millions)</i>	<i>(MNT millions)</i>	<i>(MNT millions)</i>	<i>(US\$ millions)</i>
Net cash generated from/(used in)				
operating activities	33,153.1	(208,832.0)	1,316,553.4	386.0
Net cash used in investing activities	(92,009.4)	(364,400.9)	(650,747.5)	(190.8)
Net cash generated from/(used in)				
financing activities	539,254.7	329,141.8	83,969.9	24.6
Effect of exchange rate changes on cash and cash equivalents	7,540.3	84,779.7	(40,553.0)	(11.9)
Net increase/(decrease) in cash and cash equivalents	487,938.7	(159,311.4)	709,222.8	207.9
Cash and cash equivalents at beginning of the period	1,946,787.2	2,434,725.9	2,275,414.5	667.1
Cash and cash equivalents at end of the period	2,434,725.9	2,275,414.5	2,984,637.3	875.1

Cash Flows from Operating Activities

In 2023, we generated net cash of MNT1,316,553.4 million (US\$386.0 million) from operating activities. This amount was derived from profit before tax for the year of MNT266,035.1 million (US\$78.0 million), primarily adjusted for interest expense of MNT363,440.4 million (US\$106.6 million) and losses less gains from financial derivatives of MNT230,906.3 million (US\$67.7 million), partially offset by increase in loans and advances of MNT1,222,173.6 million (US\$358.3 million).

In 2022, we used net cash of MNT208,832.0 million in operating activities, primarily due to MNT567,177.2 million in increase in loans and advances and MNT290,629.9 million increase in due from other banks, partially offset by MNT616,840.9 million for interest income received and MNT284,574.1 million in increase in customer account.

In 2021, we generated net cash of MNT33,153.1 million from operating activities. This amount was derived from our profit before tax for the year of MNT52,570.9 million, primarily adjusted for MNT557,033.1 million in interest income received and MNT272,818.5 million in interest expense, partially offset by MNT554,777.6 million in interest income.

Cash Flows from Investing Activities

In 2023, net cash generated used in investing activities was MNT650,747.5 million (US\$190.8 million), primarily due to acquisition of debt securities at fair value through other comprehensive income of MNT843,094.4 million (US\$247.2 million) and prepayment for non-current assets of MNT176,045.2 million (US\$51.6 million), partially offset by proceeds from disposal of debt securities at fair value through other comprehensive income of MNT390,779.3 million (US\$114.6 million).

In 2022, net cash used in investing activities was MNT364,400.9 million, primarily due to MNT230,000.0 million in prepayment for non-current assets representing a 10 year pre-payment of the purchase of an office building currently under development and MNT112,280.2 million for acquisition of debt securities at fair value through other comprehensive income, partially offset by MNT7,516.4 million for proceeds from disposal of investment property.

In 2021, net cash used in investing activities was MNT92,009.4 million, primarily due to MNT93,473.5 million in acquisition of debt securities at fair value through other comprehensive income and MNT25,795.2 million in acquisition of premises and equipment, partially offset by MNT18,648.9 million in proceeds from disposal of investment property.

Cash Flows from Financing Activities

In 2023, net cash generated from financing activities was MNT83,969.9 million (US\$24.6 million), primarily due to proceeds from repo arrangements of MNT4,097,128.1 million (US\$1,201.3 million), partially offset by repayment for repo arrangements of MNT3,586,092.5 million (US\$1,051.4 million).

In 2022, net cash used in financing activities was MNT329,141.8 million, primarily due to MNT1,201,130.2 million of proceeds from drawdown of other borrowed funds and MNT424,211.5 million of proceeds from repo arrangements, partially offset by MNT970,908.0 million in repayment of other borrowed funds.

In 2021, net cash generated from financing activities was MNT539,254.7 million, primarily due to MNT1,205,497.0 million of proceeds from drawdown of other borrowed funds and MNT562,558.0 million of proceeds from repo arrangements, partially offset by MNT854,325.1 million in repayment of other borrowed funds.

Liquidity

We fund our loan and investment portfolios principally with our customer deposits and placements from banks and other financial institutions. Deposits from customers have been, and we believe will continue to be, a stable source of our funding. The amount due to customers with remaining maturities of less than one year represented 97.96%, 96.18% and 98.56% of our total deposits from customers as of December 31, 2021, 2022 and 2023, respectively.

REGULATORY CAPITAL

The Bank of Mongolia monitors the capital requirements of all Mongolian banks, including us. The Bank of Mongolia has established a minimum capital adequacy ratio for Mongolian banks. As of December 31, 2023, this ratio was set at 12.0% by the Bank of Mongolia, based on total equity and total assets as adjusted for their risk. We comply and have at all times complied with the prevailing mandatory capital adequacy ratios set by the Bank of Mongolia. Our capital adequacy ratio was 15.4%, 17.9% and 15.9% as of December 31, 2021, 2022 and 2023, respectively.

The following table sets forth additional information regarding our capital base as of the dates presented:

	As of December 31,		
	2021	2022	2023
	(MNT millions)		
Tier I capital:			
Ordinary shares	168,960.1	202,164.3	202,164.3
Share premium	169,486.0	301,481.1	301,481.1
Retained earnings	242,436.1	283,420.8	460,718.1
Other components of equity	54,468.6	66,997.4	—
Treasury stock	(322.0)	—	—
Total Tier I capital	635,028.8	854,063.6	964,363.5
Tier II capital:			
Preferred shares	25,778.9	—	—
Treasury stock/preferred shares	(9,390.8)	—	—
Total Tier II capital	16,388.1	—	—
Total Tier I and Tier II capital	651,416.9	854,063.6	964,363.5
Core capital ratio	15.04%	17.91%	15.86%
Risk weighted capital ratio	15.43%	17.91%	15.86%

CAPITAL EXPENDITURES

Our capital expenditure for 2021, 2022 and 2023 is calculated as a total of: Premises and equipment, Prepayment for non-current assets, Intangible assets, Right of use asset. Our capital expenditure in 2021, 2022 and 2023 was MNT30,727.1 million, MNT260,284.4 million and MNT210,898.0 million, respectively.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

Foreign exchange and derivative contracts

We enter into foreign exchange and derivative transactions on behalf of our customers and for our own account. Our foreign exchange contracts include forward exchange contracts and currency swaps. We entered into long-term cross currency interest rate exchange contract with the Bank of Mongolia from 2018 to 2023. We recorded MNT209,029.1 million, MNT436,115.1 million and MNT202,386.9 million (US\$59.3 million) of financial assets in relation to the long-term cross currency interest rate exchange contract with Bank of Mongolia as of December 31, 2021, 2022 and 2023, respectively. Our net fair value of foreign exchange forwards and swaps were MNT208,917.1 million, MNT436,146.1 million and MNT199,496.0 million (US\$58.5 million) as of December 31, 2021, 2022 and 2023, respectively. Our net non-interest income¹ (excluding swap impact²) were MNT70 billion, MNT107 billion and MNT110 billion as of December 31, 2021, 2022 and 2023, respectively, representing a CAGR of 25.2% from 2021 to 2023. Our net non-interest income (including swap impact) were MNT49 billion, MNT142 billion and MNT(24) billion as of December 31, 2021, 2022 and 2023, respectively. Our operating income (excluding swap impact) were MNT352 billion, MNT493 billion and MNT588 billion as of December 31, 2021, 2022 and 2023, respectively, representing a CAGR of 29.1% from 2021 to 2023. Our operating income (including swap impact) were MNT331 billion, MNT527 billion and MNT454 billion, as of December 31, 2021, 2022 and 2023, respectively, representing a CAGR of 17.2% from 2021 to 2023. Our cost income ratio (excluding swap impact) was 38.9%, 35.6% and 34.1%, respectively. Our cost income ratio (including swap impact) was 41.5%, 33.3% and 44.1%, respectively.

The following table sets forth our foreign exchange forwards and swaps as of December 31, 2021 and 2022 and 2023.

	Year Ended December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Fair value of foreign exchange forwards and swaps				
Financial assets at fair value through profit or loss	218,372.3	457,415.7	202,386.9	59.3
Financial liabilities at fair value through profit or loss	(9,455.2)	(21,269.6)	(2,890.9)	(0.8)
Foreign exchange forwards and swaps, net fair value	208,917.1	436,146.1	199,496.0	58.5

(1) The figure of Net non-interest income is calculated as a sum of: Fee and commission income, Fee and commission expense, Gains less losses from financial assets at fair value through profit or loss, Losses less gains from disposal of financial assets at fair value through other comprehensive income, Losses less gains from financial derivatives, Gains less losses from trading in precious metals, Foreign exchange translation losses less gains, Gains less losses from trading in foreign currencies, Dividend received, Other operating income and Other losses, net.

(2) swap impact represents "Loss less gains from financial derivatives" line in Statement of Profit or Loss and Other Comprehensive Income.

Credit related commitments

As part of our ordinary banking activities, we enter into credit related commitments for which we charge a fee based on the value of the letter of credit or guarantee and the relative credit risk of the reimbursing customer. Documentary credits, such as letters of credit, enhance the credit standing of our customers. Guarantees generally represent irrevocable assurances that we will make payments in the event that the customer fails to fulfill its financial or performance obligations. Financial guarantees are obligations to pay a third-party beneficiary where a customer fails to make payment toward a specified financial obligation. Performance guarantees are obligations to pay a third-party beneficiary where a customer fails to perform a non-financial contractual obligation. We also have outstanding commitments to extend credit and these commitments take the form of undrawn portions of approved loans, credit card limits and overdraft facilities. The nominal values of guarantees and documentary credits for the dates set forth below were as follows:

	As of December 31,			
	2021	2022	2023	
	(MNT millions)	(MNT millions)	(MNT millions)	(US\$ millions)
Bank guarantees:				
Financial guarantees issued	45,866.7	66,863.2	67,082.0	19.7
Performance guarantees issued	395,440.3	355,360.2	386,870.7	113.4
Documentary credits:				
Letter of credit	165,377.4	244,371.4	322,641.4	94.6
Undrawn credit line	221,576.0	284,861.2	569,953.3	167.1
Total	828,260.4	951,456.1	1,346,547.4	394.8

Our total credit-related commitments were MNT828,260.4 million as of December 31, 2021 and increased by 14.9% to MNT951,456.1 million as of December 31, 2022 and further increased by 41.5% to MNT1,346,547.4 million (US\$394.8 million) as of December 31, 2023, principally due to increases in credit lines and letter of credits.

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

STATISTICAL INFORMATION

The following information should be read together with our financial statements included elsewhere in this Offering Memorandum. All amounts, unless otherwise stated presented in this section have been prepared, unless otherwise stated, in accordance with Bank of Mongolia guidelines on the basis of unaudited management accounts and accounting records. For 2021, 2022 and 2023, unless otherwise noted, average statements of financial position data is calculated based on the daily averages of the relevant period, except that average balance sheet data for short-term borrowings is calculated based on the monthly averages of the relevant period.

Calculation of average balances using different methods of calculation could result in material differences from the figures set forth below and elsewhere in this Offering Memorandum. All average balances and rates included in this Offering Memorandum, as well as other financial data presented in this chapter, are unaudited. Independent auditors have not audited, reviewed or performed any assurance procedures with respect to data presented in this section.

Distribution of Assets, Liabilities and Equity; Interest Rates and Interest Differential

Average balances of statements of financial position items, interest and dividend income, interest expense and average yields and rates

The following tables set forth our average balances of statements of financial position items, interest and dividend income, interest expense, average yields on interest-earning assets, and average rates on interest-bearing liabilities for the periods presented. Average balances are based on a daily average of the business days within each such period. The average balances determined by such methods are considered to be representative of our operations. Within total average assets and total average liabilities, we have a negligible percentage attributable to foreign activities.

	Year ended December 31,								
	2021			2022			2023		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(MNT millions, except percentages)								
Assets:									
Interest-earning assets ⁽²⁾ :									
Deposits and placements with banks and other financial institutions:									
Domestic	127,011	2,855	2.2%	201,241	6,958	3.5%	122,189	3,925	3.2%
Foreign ⁽¹⁾	953,234	18,323	1.9%	970,809	15,965	1.6%	1,088,792	21,091	1.9%
Total	1,080,246	21,179	2.0%	1,172,050	22,923	2.0%	1,210,981	25,016	2.1%
Investments Securities:									
Domestic	1,456,010	92,278	6.3%	1,049,425	90,459	8.6%	1,322,900	162,154	12.3%
Foreign ⁽¹⁾	223,603	11,918	5.3%	267,266	15,579	5.8%	341,891	22,246	6.5%
Total	1,679,613	104,196	6.2%	1,316,691	106,038	8.1%	1,664,791	184,400	11.1%
Loans and advances:									
Domestic	2,945,200	397,591	13.5%	3,402,583	438,230	12.9%	3,915,547	591,837	15.1%
Foreign ⁽¹⁾	285,243	23,469	8.2%	278,221	22,587	8.1%	178,066	16,518	9.3%
Total	3,230,443	421,060	13.0%	3,680,804	460,817	12.5%	4,093,613	608,355	14.9%
Total interest-earning assets:									
Domestic	4,528,221	492,724	10.9%	4,653,249	535,647	11.5%	5,360,636	757,916	14.1%
Foreign ⁽¹⁾	1,462,080	53,710	3.7%	1,516,296	54,131	3.6%	1,608,749	59,855	3.7%
Total	5,990,302	546,434	9.1%	6,169,545	589,778	9.6%	6,969,385	817,771	11.7%

Year ended December 31,									
2021			2022			2023			
Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate	
(MNT millions, except percentages)									
Noninterest-earning assets:									
Cash on hand (incl. placements with Banks) .	1,027,305	8,343	0.0%	1,475,525	20,131	0.0%	1,741,483	22,962	0.0%
Other noninterest-earning assets.	673,329	—	—	722,161	—	—	958,781	—	—
Allowance for loan losses .	(203,390)	—	—	(199,228)	—	—	(268,272)	—	—
Total noninterest-earning assets⁽³⁾	1,497,244	—	—	1,998,458	—	—	2,431,992	—	—
Total average assets.	7,487,546	554,778	7.4%	8,168,003	609,909	7.5%	9,401,377	840,733	8.9%
Placements with the Bank of Mongolia:									
	—	8,343	—	—	20,131	—	—	22,962	—

- (1) Assets denominated in foreign currencies and translated to Tugriks have been calculated based on the Bank of Mongolia official exchange rate between Tugriks and the relevant foreign currencies on the dates indicated (and for average balances, on the Bank of Mongolia official exchange rate for each such day in the relevant period).
- (2) Includes deposits and placements with banks and other financial institutions, investment securities and loans and advances.
- (3) Includes balances maintained with the Bank of Mongolia pursuant to the Bank of Mongolia's reserve requirement. In our net interest margin calculation, total interest-earning assets and interest income doesn't include balance of placements with the Bank of Mongolia and related income.

Year ended December 31,									
2021			2022			2023			
Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate	
(MNT millions, except percentages)									
Liabilities and equity:									
Interest-bearing liabilities⁽²⁾:									
Deposits:									
Domestic	3,323,740	196,476	5.9%	3,099,447	131,191	4.2%	3,539,546	230,710	6.5%
Foreign ⁽¹⁾	1,864,128	22,894	1.2%	2,199,371	18,027	0.8%	2,609,874	41,108	1.6%
Total	5,187,868	219,370	4.2%	5,298,818	149,218	2.8%	6,149,420	271,818	4.4%
Due to banks, repo agreements and lease expense:									
Domestic	114,359	8,625	7.5%	189,021	15,589	8.2%	119,371	15,587	13.1%
Foreign ⁽¹⁾	51,903	1,133	2.2%	103,922	2,204	2.1%	66,211	1,210	1.8%

	Year ended December 31,								
	2021			2022			2023		
	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate	Average balance	Interest expense	Average rate
	<i>(MNT millions, except percentages)</i>								
Total	166,262	9,758	5.9%	292,944	17,794	6.1%	185,583	16,797	9.1%
Loan fund:									
Domestic	265,543	19,484	7.3%	420,305	25,255	6.0%	412,509	26,379	6.4%
Foreign ⁽¹⁾	1,047,061	24,206	2.3%	1,234,319	32,072	2.6%	1,337,674	48,447	3.6%
Total	1,312,604	43,690	3.3%	1,654,625	57,326	3.5%	1,750,183	74,826	4.3%
Total interest-bearing liabilities:									
Domestic	3,703,643	224,586	6.1%	3,708,774	172,035	4.6%	4,071,426	272,676	6.7%
Foreign ⁽¹⁾	2,963,092	48,233	1.6%	3,537,613	52,303	1.5%	4,013,760	90,765	2.3%
Total	6,666,735	272,819	4.1%	7,246,386	224,338	3.1%	8,085,186	363,440	4.5%
Noninterest-bearing liabilities.	292,992	—	—	306,662	—	—	441,650	—	—
Equity	527,819	—	—	614,955	—	—	874,541	—	—
Total	7,487,546	—	—	8,168,003	—	—	9,401,377	—	—
Net interest income less Cash deposited in the Bank of Mongolia and average interest rate spread.	—	273,616	5.0%	—	365,440	6.5%	—	454,330	7.2%
Net interest income as a percentage of average total interest-earning assets	—	—	4.6%	—	—	5.9%	—	—	6.5%

(1) Liabilities denominated in foreign currencies and translated to Tugriks have been calculated based on the Bank of Mongolia official exchange rate between Tugriks and the relevant foreign currencies on the dates indicated.

(2) Includes deposits, due to banks and loan fund.

Analysis of net interest income

The following table sets forth changes in our interest and dividend income, interest expense, and net interest income based on changes in volume and changes in rate for 2022 compared to 2021 and 2023 compared to 2022. Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	For the year ended December 31, 2021 versus for the year ended December 31, 2022			For the year ended December 31, 2022 versus for the year ended December 31, 2023		
	Increase (decrease) due to changes in		Net change	Increase (decrease) due to changes in		Net change
	Volume	Yield		Volume	Yield	
	(MNT millions)					
Interest income:						
Deposits and placements with banks and other financial institutions:						
Domestic	1,668.7	2,434.2	4,102.9	(2,733.3)	(299.9)	(3,033.3)
Foreign	337.8	(2,696.4)	(2,358.6)	1,940.2	3,186.2	5,126.3
Total	2,006.6	(262.3)	1,744.3	(793.1)	2,886.2	2,093.1
Investment Securities						
Domestic	(25,768.3)	23,949.3	(1,819.0)	23,573.2	48,121.8	71,695.0
Foreign	2,327.2	1,333.8	3,661.0	4,349.9	2,317.1	6,667.0
Total	(23,441.0)	25,283.0	1,842.5	27,923.1	50,438.9	78,362.0
Loans and advances:						
Domestic	61,745.0	(21,105.9)	40,639.0	66,066.3	87,540.6	153,607.0
Foreign	(577.8)	(304.2)	(882.0)	(8,130.9)	2,061.9	(6,069.0)
Total	61,167.2	(21,410.2)	39,757.0	57,935.4	89,602.6	147,538.0
Total interest income:						
Domestic	13,604.5	29,318.4	42,922.9	81,429.0	140,839.7	222,268.7
Foreign	1,991.6	(1,571.3)	420.4	3,300.5	2,423.8	5,724.3
Total	15,596.1	27,747.2	43,343.9	84,729.6	143,263.5	227,993.0
Interest expense:						
Deposits:						
Domestic	(13,258.6)	(52,026.4)	(65,285.0)	18,628.2	80,890.4	99,519
Foreign	4,117.2	(8,984.2)	(4,867.0)	3,364.7	19,716.3	23,081
Total	(9,141.4)	(61,010.6)	(70,152.1)	21,992.9	100,606.7	122,599.6
Due to banks, repo agreements and lease expense:						
Domestic	5,630.9	1,333.4	6,964.3	(5,744.2)	5,742.3	(2)
Foreign ⁽¹⁾	1,135.6	(64.2)	1,071.4	(799.9)	(194.8)	(995)
Total	6,766.5	1,269.1	8,035.6	(6,544.2)	5,547.5	(996.7)
Loan fund:						
Domestic	11,355.7	(5,585.1)	5,770.6	(468.5)	1,592.2	1,124
Foreign ⁽¹⁾	4,329.0	3,536.6	7,865.7	2,685.5	13,690.0	16,375
Total	15,684.7	(2,048.5)	13,636.2	2,217.0	15,282.3	17,499.3

	For the year ended December 31, 2021 versus for the year ended December 31, 2022			For the year ended December 31, 2022 versus for the year ended December 31, 2023		
	Increase (decrease) due to changes in		Net change	Increase (decrease) due to changes in		Net change
	Volume	Yield		Volume	Yield	
	(MNT millions)					
Total interest expense:						
Domestic	311.1	(52,861.3)	(52,550.2)	16,822.0	83,818.4	100,640
Foreign ⁽¹⁾	9,352.0	(5,282.0)	4,070.0	7,039.7	31,422.0	38,462
Total	9,663.1	(58,143.3)	(48,480.2)	23,861.8	115,240.4	139,102.2
Net interest income less Cash deposited in the Bank of Mongolia:						
Domestic	13,293.4	82,179.7	95,473.1	64,607.0	57,021.2	121,628
Foreign	(7,360.4)	3,710.7	(3,649.6)	(3,739.2)	(28,998.2)	(32,737)
Total	5,993.0	85,890.5	91,823.4	60,867.8	28,023.1	88,890.8

(1) Income denominated in foreign currencies and translated to Tugriks has been calculated based on the Bank of Mongolia official exchange rate between Tugriks and the relevant foreign currencies on the dates indicated.

Investment Portfolio

Data presented below has been derived from IFRS financial statements of the Bank. The following table sets forth fair value of our investments in debt securities and equity securities as of the dates presented:

	As of December 31,		
	2021	2022	2023
	<i>(MNT millions)</i>		
Investments in debt securities			
Debt securities at FVTOCI	1,808,800.8	1,003,207.7	1,424,489.4
Debt securities at FVTPL	165,954.3	222,344.7	308,603.2
Debt securities at AC	4,684.8	4,698.6	—
Total investments in debt securities.	1,979,439.9	1,230,251.0	1,733,092.6
Investments in equity securities			
Equity securities at FVTPL	17,927.9	22,103.5	23,634.1
Equity securities at FVTOCI	544.9	410.0	448.7
Total investment in equity securities	18,472.7	22,513.5	24,082.8

The following table sets forth contractual maturities and weighted average yields of our investments in debt securities as of December 31, 2023. Weighted average yields are calculated based on amortized cost for all debt securities.

Investments in debt securities:

	Maturity									
	One year or less		After one year through five years		After five years through ten years		After ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<i>(MNT millions, except percentages)</i>										
FVTOCI										
BOM treasury bills	975,885.02	13.39%	—	—	—	—	—	—	975,885.02	13.39%
Corporate bond	49,701.95	8.85%	—	—	—	—	—	—	49,701.95	8.85%
Government bonds	23,318.93	7.90%	312,691.08	5.66%	62,892.45	5.96%	—	—	398,902.46	6.51%
Total/FVTOCI/	1,048,905.90	—	312,691.08	—	62,892.45	—	—	—	1,424,489.43	—
FVTPL										
Government bonds	—	—	42,328.75	5.66%	5,908.40	5.96%	—	—	48,237.15	5.81%
Asset backed securities	—	—	6,654.00	5.66%	11,791.00	9.74%	241,921.04	10.16%	260,366.04	8.52%
Total/FVTPL/	—	—	48,982.75	—	17,699.39	—	241,921.04	—	308,603.19	—
Total	1,048,905.90	—	361,673.84	—	80,591.84	—	241,921.04	—	1,733,092.62	—

For further information related to our investments in debt securities and equity securities, see Notes 10 and 11 to the financial statements for 2022 and 2023 included elsewhere in this Offering Memorandum.

Loan Portfolio

Credit assessment and approval

We evaluate the credit of every loan applicant before approving any loan. Our assessment and approval process is well-defined, tailored to all types of borrowers and is in line with our overall lending strategy. We apply the same process for both loans and credit card applications. The Law of Mongolia on Credit Information was adopted on October 20, 2011 by Parliament and came into force on January 1, 2012. Pursuant to this law, activities related to credit information are subject to licensing by the Bank of Mongolia. In recent years, the Bank of Mongolia has granted licenses to two private credit information bureaus. However, these bureaus are in the early stages of development and have limited capacity/ability to collect, evaluate, and process credit information effectively. The Bank of Mongolia keeps records of and provides details of defaults and outstanding judgments against borrowers through an internet-based system maintained and updated on a daily basis. The Bank also uses information from private credit bureaus. These sources, together with our internal data, provide the basis of the credit approval process.

Collateral policy

Collateral Policy According to the Bank's collateral policy, collateral is pledged from borrowers and third parties as security for loans, loan equivalent assets and other contingent liabilities. Moreover, the Bank implements a comprehensive collateral policy according to the requirements set by the International Valuation Standard (IVS), including asset valuation methodologies (market, cost, and other approaches) and valuation models that depending on collateral types and nature, along with a code of ethics that appraisers must comply with to maintain independence. 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.

Maturities and sensitivities of loans to changes in interest rates

The following table sets forth the maturities of our loans by domicile and industry of borrower as of December 31, 2023:

	Maturity				
	One year or less	After one year through five years	After five years through 15 years	After 15 years	Total
	<i>(MNT millions)</i>				
Consumer	123,288.42	980,574.13	94,887.81	—	1,198,750.36
Financial services	59,021.41	31,249.80	4,285.38	—	94,556.59
Mortgage	27.47	10,311.49	261,098.83	765,136.62	1,036,574.42
Mining and quarrying	83,902.54	110,742.54	815.19	—	195,460.27
Construction	40,851.31	126,147.43	67,933.94	—	234,932.68
Wholesale	197,705.27	865,985.57	209,904.90	152.65	1,273,748.38
Manufacturing	59,403.75	136,038.45	50,563.25	—	246,005.45
Transportation and communication	29,815.71	44,729.35	5,734.99	—	80,280.05
Maintenance	41,246.65	153,793.71	54,472.03	—	249,512.39
Others	75,807.45	91,069.95	99,479.62	1,122.67	267,479.69
Total	711,069.99	2,550,642.43	849,175.93	766,411.94	4,877,300.29
Less: Unearned income and deferred loans fees — net	—	—	—	—	—
Total loans before allowance for loan losses .	711,069.99	2,550,642.43	849,175.93	766,411.94	4,877,300.29

Of the above loans due after one year, the table below set forth loans with fixed rates as of December 31, 2023 were as follows:

	As of December 31, 2023
Amount due after one year at fixed interest rates:	<i>(MNT millions)</i>
Total	4,141,788.66

Of the above loans due after one year, the table below set forth loans with floating rates as of December 31, 2023 were as follows:

	As of December 31, 2023
Amount due after one year at floating interest rates:	<u>(MNT millions)</u>
Total	<u><u>24,441.64</u></u>

Measures Taken to Improve Asset Quality

Measures taken to improve asset quality include, but not limited to the following: behavioral scoring and credit rating scoring were newly developed for corporate loans and revising the rules and regulations governing credit operations. For further measures to improve asset quality, please refer to Note 38 to the financial statements for 2023 included elsewhere in this Offering Memorandum.

Summary of Loan Loss Experience

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. The Bank also assesses its impairment provision in accordance with IFRS accounting standard (ECL). For additional information related to our ECL measurement, see Notes 4 and 38 to the financial statements for 2023 included elsewhere in this Offering Memorandum.

The following table sets forth details of our provisioning for the periods presented:

	For the year ended December 31,		
	2021	2022	2023
	<u>(MNT millions)</u>		
Total provisions balance as of January 1	160,124.52	160,974.13	199,150.36
Charges for the year(s) less reversals	35,770.45	58,788.32	(28,074.70)
Written-off	(36,270.02)	(20,101.63)	(10,906.99)
FX difference	1,349.18	(510.47)	5,022.92
Total provisions balance as of December 31	<u><u>160,974.13</u></u>	<u><u>199,150.36</u></u>	<u><u>165,191.59</u></u>

The following table sets forth an analysis of loan loss experience by domicile and industry of borrower for the periods presented:

	For the year ended December 31,		
	2021	2022	2023
	<i>(MNT millions, except percentages)</i>		
Allowance for loan losses at the beginning of the year	160,124.52	160,974.13	199,150.36
Provision (reversal) for loan losses	35,770.45	58,788.32	(28,074.70)
Write-offs:	(36,270.03)	(20,101.63)	(10,906.99)
Domestic:			
Consumer	218.95	14,911.10	4,554.97
Financial services	—	—	—
Mortgage	10.83	—	15.43
Mining and quarrying	17,482.78	—	—
Construction	368.50	—	6,248.53
Wholesale	18,188.97	—	—
Manufacturing	—	5,117.65	—
Others	—	72.88	88.06
Total domestic	(36,270.03)	(20,101.63)	(10,906.99)
Total foreign	—	—	—
Total write-offs	(36,270.03)	(20,101.63)	(10,906.99)
Net write-off*	(499.57)	38,686.69	(38,981.69)
Others	1,349.18	(510.47)	5,022.92
Balance at the end of the year	<u>160,974.13</u>	<u>199,150.36</u>	<u>165,191.59</u>
Ratio of net write-offs to average loans outstanding (%)	<u>1.0%</u>	<u>0.2%</u>	<u>0.1%</u>

* Calculated as: write-offs for the period less reversal of the provision

The following table sets forth balances of certain provisions for other liabilities and other assets as of the dates presented:

	Provision for Legal Cases	Provision for Employee Severance and Service Entitlement	ECL for Other Assets	Total
	<i>(MNT millions)</i>			
Balance as of December 31, 2021	—	—	4,378.72	4,378.72
Balance as of December 31, 2022	159.70	—	4,729.41	4,889.11
Balance as of December 31, 2023	0.80	—	6,265.80	6,266.60

The following table sets forth an allocation of our allowance for loan losses by domicile and industry of borrower as of the dates presented:

As of December 31,					
2021		2022		2023	
Amount	% of loans in each category to total loans⁽¹⁾	Amount	% of loans in each category to total loans⁽¹⁾	Amount	% of loans in each category to total loans⁽¹⁾
<i>(in MNT millions, except percentages)</i>					
Consumer	87,273.00 14.4%	53,826.35 7.4%	36,608.07 3.4%		
Financial services	1,136.57 0.8%	621.56 0.4%	1,192.06 1.3%		
Mortgage	7,144.67 1.1%	4,836.46 0.6%	4,134.25 0.4%		
Mining and quarrying	5,849.90 1.4%	7,994.93 4.4%	7,062.48 3.6%		
Construction	4,988.22 3.1%	8,081.77 6.4%	7,129.64 3.0%		
Wholesale	11,757.79 1.5%	81,438.53 8.1%	75,616.35 5.9%		
Manufacturing	18,312.36 8.4%	12,117.66 7.7%	10,151.88 4.1%		
Transportation and communication	8,838.52 14.2%	8,877.60 14.8%	9,054.78 11.3%		
Agriculture	3,498.81 17.7%	2,775.58 15.9%	1,162.81 5.7%		
Other	12,174.30 2.6%	18,579.92 3.0%	13,079.26 2.1%		
Total allowance for loan losses . . .	160,974.13 —	199,150.36 —	165,191.59 —		

(1) Calculated as a ratio of the total loan loss allowance to the total loan amounts outstanding and expected credit loss in each sector.

Deposits

For the dates presented below, as we had no foreign offices, we had no deposits from foreign offices. The following table sets forth the average amount of, and the average rate on, the following deposit categories for the periods presented:

	For the year ended December 31,					
	2021		2022		2023	
	Average amount	Average rate	Average amount	Average rate	Average amount	Average rate
	<i>(in MNT millions, except percentages)</i>					
Current accounts	1,544,742	—	2,100,277	—	2,975,232	0.9%
Demand deposits	956,021	0.4%	753,353	—	479,997	3.3%
Term deposits	2,687,106	7.9%	2,445,187	6.1%	2,694,190	8.5%
Total	5,187,868	4.2%	5,298,818	2.8%	6,149,420	4.4%

Note: Deposits at notice represent interest-bearing demand deposits which require the depositor to give two or more days' notice in advance of withdrawal.

	As of December 31, 2023
	<i>(MNT millions)</i>
Total uninsured time deposits with a maturity of	361,431
3 months or less	191,766
Over 3 months through 6 months	106,947
Over 6 months through 12 months	62,671
Over 12 months	47

Note: Total uninsured deposits means deposits mentioned in Article 7 of the Deposit Insurance Law of Mongolia.

The percentage of total deposits by foreign depositors in domestic offices as of December 31, 2021, 2022 and 2023 were 0.36%, 2.07% and 1.38%, respectively.

As of December 31, 2023, the balance and remaining maturities of term deposits accepted by domestic offices in the amounts of MNT3,301,158 million or more as well as the balances of those deposits accepted by foreign offices in the amounts of US\$100,000 or more are shown in the following table:

	Time deposits	Certificates of deposit	Total
	<i>(in MNT millions)</i>		
Due in three months or less	1,494,088	893	1,494,981
Due after three months through six months	764,135	766	764,901
Due after six months through twelve months	959,448	756	960,204
Due after twelve months	81,072	—	81,072
Total	3,298,743	2,415	3,301,158

Short-term Borrowings

The following table sets forth certain additional information with respect to our short-term borrowings (borrowings with a term of no more than one year) for the periods presented:

	For the year ended December 31,		
	2021	2022	2023
<i>(in MNT millions, except percentages)</i>			
Short-term borrowings:			
Average balance outstanding at end of the year ⁽¹⁾ . .	330,250	495,833	793,445
Maximum balance outstanding at any month-end			
end of the year	446,067	682,330	998,460
Balance at end of the year	446,067	682,330	523,378
Weighted average interest rate during			
the year (%) ⁽¹⁾	6.69%	5.09%	4.11%
Weighted average interest rate on balance at end of			
the year (%) ⁽¹⁾	6.92%	4.08%	4.56%

(1) Average data is calculated based on the monthly averages of the relevant period.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are, in the normal course of business, exposed to certain risks relating primarily to credit risk, liquidity risk, interest rate risk and foreign currency exchange risk. For additional information, see Note 38 to the financial statements for 2022 and 2023 included elsewhere in this Offering Memorandum.

Credit risk

We are exposed 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 our lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments. Our 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.

Market risk

We are exposed 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. Our 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, we revise our contingency plan for a crisis, annually.

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. We take on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on our financial position and cash flows. Any unhedged position in a particular currency gives rise to foreign exchange risk. In respect of currency risk, our management sets limit on the level of exposure by currency and in total for both overnight and intra-day positions.

Interest rate risk

We are exposed to the effects of fluctuations in the prevailing levels of market interest rates on our 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 our 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.

We are 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. We manage interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk. Methods used to estimate the degree of interest rate risk include gap analysis (mismatch management), duration analysis (analysis of weighted average maturities), and interest income simulation. Additionally, the Bank manages and minimizes risk through interest gap management, interest risk hedging and compliance with established limits. The process of interest rate limits includes (i) limit on maximum loss, (ii) limits on interest rate gap and (iii) minimum interest rate on allocation of resources.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. We are exposed to daily calls on our 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. Our 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.

EFFECTS OF INFLATION

According to the National Statistics Office of Mongolia, Mongolia's annual inflation, as measured by the consumer price index, was 13.8% in 2021, 13.2% in 2022 and 7.9% in 2023. We do not believe that inflation in Mongolia, where all of our operations are conducted, has had a material impact on our results of operations.

CRITICAL ACCOUNTING POLICIES

Our financial statements of the have been prepared in accordance with IFRS. The financial statements have been prepared on a historical cost basis. The financial statements are presented in Mongolian Togrog. For additional information related to our critical accounting policies, see Note 4 to the financial statements for 2022 and 2023 included elsewhere in this Offering Memorandum.

Financial Assets

We determine the classification of our financial assets at initial recognition.

Initial recognition

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 recognized for financial assets measured at AC and investments in debt instruments measured at FVTOCI, resulting in an immediate accounting loss.

Classification and subsequent measurement

We classify financial assets in the following measurement categories: fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVTOCI”) and amortized cost (“AC”).

Reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. 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. We did not change our business model during the current and comparative period and did not make any reclassifications.

Credit loss allowance for expected credit loss (“ECL”)

We assess, 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. We measure ECL and recognize credit loss allowance at each reporting date. 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 us;
- 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 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 recognized as a liability in the statement of financial position. For debt instruments at FVTOCI, changes in amortized cost, net of allowance for ECL, are recognized in profit or loss and other changes in carrying value are recognized in OCI as gains less losses on debt instruments at FVTOCI.

We apply 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”). If we determine 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.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, we measure expected credit losses over the period that we are 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.

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 recognized by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

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 us to originate loans at market interest rates are integral to the effective interest rate if it is probable that we will enter into a specific lending arrangement and do not expect to sell the resulting loan shortly after origination. We do not designate loan commitments as financial liabilities at FVTPL.

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

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

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (i.e., the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognized in P&L due to the asset being in stage 3 but now expected to be received following the asset’s curing, is recognized as a reversal of impairment.

Fee and commission income is recognized 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 recognized 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 recognized 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.

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 recognized 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.

RECENT CHANGES IN ACCOUNTING STANDARDS

See Note 6 to our audited financial statements as of and for the year ended December 31, 2022 and 2023 for a discussion of recent changes in accounting standards.

MONGOLIAN ECONOMY

OVERVIEW

Mongolia operated as a Soviet-style, centrally planned economy until the establishment of a democratic government in 1990. Since 1990, Mongolia has transitioned into a market-oriented economy, with the private sector constituting approximately 77.8% of the nation's GDP in 2022, according to the National Statistical Office of Mongolia. Mongolia's economy had a real GDP contraction of 4.6% in 2020, growth of 1.6% in 2021, 4.8% in 2022, and a growth of 7.0% in 2023. Recent growth has been primarily driven by expanding coal and copper production, ongoing development of large mining projects, and growth in the agriculture sector. Mongolia, however, faces certain challenges, including maintaining a low target inflation rate, a growing dependence on the production and export of commodities that have volatile prices, currency depreciation, limited foreign currency reserves, trade dependence on China, a growing need for foreign direct investment to develop infrastructure projects, and fuel and energy requirements and managing the after-effects of the COVID-19 pandemic.

Mongolia's economy is highly dependent on the production and export of commodities and on trade with China and Russia. Economic growth is strongly correlated to coal and copper export prices and, in particular, growth in China's economy. Mongolia is also dependent on Russia for a majority of its fuel needs which could lead to price pressure from Russia.

In September 2016, the Government submitted a request to the IMF for financial assistance. To further strengthen its request for financial assistance, the Government proposed the Economic Recovery Plan, which took into account various policy recommendations by the IMF. Following a visit to Mongolia by the IMF in October 2016, the IMF released a statement stating that the visit was very productive and common policy views were developed in many areas. Technical teams made subsequent visits to Mongolia, and a high-level delegation visited in late January 2017 for two weeks of in-depth discussions. On February 19, 2017, the IMF reached staff-level agreement with Mongolia on a three-year extended fund facility. On May 24, 2017, the IMF concluded its 2017 Article IV Consultation, an annual bilateral discussion on current economic and financial updates, with Mongolia. On the same day, the Government finalized the terms of the IMF's financial assistance package, which included a three-year SDR314.5 million (approximately US\$434.3 million) loan for Mongolia. This was agreed as part of a broader approximately US\$5.5 billion financing package supported by Japan, Korea, China, the World Bank and the ADB. The combined program was designed to address key issues discussed in the Article IV consultation, and aimed at stabilizing the economy, restoring domestic confidence, and paving the way to economic recovery.

Since Mongolia's transition to democracy and a market economy, it has pursued an independent foreign policy. The main components of Mongolia's foreign policy are maintaining friendly and balanced relations with its two neighbors, Russia and China, and developing closer ties with other potentially strategic export and import markets (the "Third Neighbor Policy"). Mongolia's economy is significantly influenced by Russia and China. Mongolia purchases nearly all of its petroleum from Russia, and China is Mongolia's largest commodity export market. Furthermore, Mongolia's ability to integrate with the global economy is dependent on easy access and efficient transport links to seaports and gateways through Russia and China. Mongolia's Third Neighbor Policy is aimed at diversifying its political and economic dependence on its powerful neighbors by seeking closer ties with the United States, Japan, the Republic of Korea, the EU, India and Turkey. In September 2022, the United States, led by Secretary of State Antony J. Blinken and Export Import Bank of the U.S. Chair and President Reta Jo Lewis, hosted a high-level ministerial event to advance the Minerals Security Partnership by convening partners and key minerals-rich countries to discuss priorities, challenges, and opportunities in responsible mining, processing, and recycling of critical minerals. Mongolia attended this meeting as one of the minerals-rich countries. The Minerals Security Partnership between 14 countries positions Mongolia as an essential partner for mineral supplies.

The development of railway infrastructure remains one of the most pressing issues in the Mongolian economy. To maximize revenue generation from its mineral resources, Mongolia has been progressively expanding its railway network and capacity and increasing in border crossings with Russia and China.

New railroad lines into China increase commodity transportation capacity, reduce transportation costs, and eliminate border disruptions. Commencement of underground production at the Oyu Tolgoi marks a key milestone for copper exports for Mongolia. Global demand for copper is expected to remain healthy on the back of an increase in use cases (e.g. batteries, electric vehicles and green energy). The mine is estimated to increase Mongolia's export revenue by 16.7% and has a 1.4x multiplier effect on the economy.

Mongolia's economy is heavily dependent on exports and foreign capital. Any significant decline in international prices for commodities, including coal and copper, which are Mongolia's main exports, poses risks to Mongolia's export revenue. The Government signed an agreement to purchase Russian gasoline at discounted price in July 2022. In 2017, the Government of Mongolia commenced the refinery project in Altanshiree soum of Dornogovi province, with a loan of approximately US\$1.2 billion from the Government of India. Once completed, the refinery is expected to reduce Mongolia's dependence on fuel imports, stabilize domestic price fluctuations and inflation, reduce trade deficits, and bring socio-economic benefits.

Mongolia has vast mineral resource and agribusiness potential with over 61 million tons of proven copper reserves and 37.2 billion tons of proven coal reserves; current exploration licenses issued only cover 3.7% of total territory. Copper is one of Mongolia's key exports, representing approximately 20% of Mongolia's total commodity exports in 2023. With the start of production at the Oyu Tolgoi, one of the largest copper-gold mine in the world, copper exports is expected to increase significantly, as a result of (i) the appeal of copper lies largely in its exceptional thermal and electrically conductive properties as well as its antimicrobial properties; (ii) global megatrends driving the growth in copper demand, which includes decarbonize energy production as well as passenger and freight transport; (iii) Solar and wind energy production require approximately 2.5 times the copper per megawatt output than thermal energy generation; and (iv) the copper intensity of battery electric vehicles are approximately 4 times more than an equivalent vehicle powered by an internal combustion engine. China is Mongolia's largest export destination accounting for 91.4% of total exports in 2023 and has the largest electric vehicle market in the world.

Mongolian development policies have set long-term sustainable development goals. In 2020, Mongolia adopted "Vision-2050," its long-term development policy. Under this policy framework, Mongolia will implement projects and plans across the six leading economic sectors: mining, agriculture, information and technology creative industries, energy, transportation and logistics, and tourism. Vision-2050 also includes plans and projects to improve basic social services. The Government evaluates the macroeconomic impact of plans and projects under the Vision-2050 framework across four metrics: contribution to GDP, net effect on balance of payments, net impact on the Government's budget balance, and impact on people and employment.

According to the Ministry of Finance of Mongolia, Mongolia has a relatively prudent government debt management system among its Asian peers. Mongolia has a proactive liability management system coupled with the use of domestic financing through domestic bond issuance and close monitoring of external liability management plans of the Development Bank of Mongolia LLC and other state-owned enterprises.

Recent Mongolian economic developments include:

- Parliament approved the Medium-Term Debt Strategy 2023-2025 in May 2022;
- the Government has used the strong growth performance to over-perform on key macro targets and refinance debt at lower interest rates;
- IMF staff completed discussions for Mongolia's emergency access to the IMF's Rapid Financing Instrument (RFI) to help the country address the economic challenges posed by the COVID-19 pandemic;
- Mongolia was removed from the FATF AML/CFT "grey list" on October 23, 2020 and from the European Commission's list on January 18, 2021;

- Trilateral meeting among President Khurelsukh, Russian President Vladimir Putin and Chinese President Xi Jinping in China on the sidelines of the Shanghai Cooperation Organization summit in Samarkand, Uzbekistan on September 15, 2022 further deepened trilateral economic cooperation;
- the Government announced a US\$1.8 billion economic stimulus package in response to the COVID-19 pandemic intended to maintain macroeconomic stability during the lockdown period; the stimulus package is largely funded by international financial organizations;
- In response to the COVID-19 pandemic and to mitigate the adverse effects on the economy, the Government adopted a four-year program of MNT10.0 trillion, under which the Government would lend concessional loans to targeted groups. As of December 31, 2022, a total of MNT5.9 trillion of concessional loans under this program have been disbursed to targeted groups, and the Government estimated that a total of 109.8 thousand jobs were protected by this disbursement as a result;
- the Government has sought to ensure the continued sustainability of its debt stock by only drawing long term, low interest facilities to fund its economic stimulus package;
- the Tavan Tolgoi — Gashuun Sukhait railway, the second cross-border railway connection of Mongolia with China, commenced operations on September 9, 2022;
- the Zuunbayan — Khangai railway, the third cross-border railway connection of Mongolia with China, commenced operations on November 25, 2022. This railway connects the east-west Tavan Tolgoi — Zuunbayan railway, which began trial operations on March 15, 2022, with the Khangai — Mandal border crossing point. The Tavan Tolgoi — Zuunbayan railway was the first major railway constructed entirely with domestic resources. The Zuunbayan — Khangai railway supports a key industrial facility at Sainshand in the northwest of Zuunbayan. China is also constructing a new railway to connect with the border crossing point at Khangai, providing a through route for freight traffic to China's Inner Mongolia and beyond. Initial talks on this project have started. The railway is expected to increase Mongolia's import-export freight capacity by 20 million metric tons. It is also expected to boost the export of coal, copper and iron ore from Mongolia's mineral-rich southern region by reducing by half the transport distance for freight.
- exports of coal, which were suspended on February 10, 2020, resumed from March 2020 through Mongolia's main ports through the implementation of COVID-19 preventative measures for truck drivers (known as the "Green Gateway"); revenue from coal exports increased starting from May 2020 as the Zuunbayan — Khangai railway commenced operations in November 2022 and the daily number of trucks delivering coal through Gashuun Sukhait, Shivee Khuren and Tsanhi increased. The Green Gateway boosted coal exports to China, with the daily number of coal trucks peaking in September 2020, surpassing pre-COVID-19 levels before declining as a result of seasonality factors and further outbreaks of COVID-19 in Mongolia, and the slowdown of purchases of coal from China in May and June 2021;
- A new construction and demolition waste recycling plant and waste landfill were under construction in Ulaanbaatar. The new plant will include the capacity to recycle 150 thousand tons of solid waste per month;
- The Oyu Tolgoi copper and gold mine commenced underground production on March 13, 2023.
- Mongolia's five domestic systemically important banks, namely Golomt Bank, Khan Bank, State Bank, Trade and Development Bank and Xac Bank, all completed their listings on the Mongolian Stock Exchange, with the last of these completed on May 29, 2023;
- The construction of a 530 km oil pipeline to transport crude oil from oil fields in the Tamsag Basin in the easternmost region of Mongolia to an oil refinery, which will be Mongolia's first, to be constructed approximately 200 kilometers north of Ulaanbaatar, started in April 28, 2023 and is scheduled to be completed in 2025;

- The construction of a 7.1 km railway connecting the Mongolian port Shivee Khuren with the Chinese border port Ceke started on May 27, 2023. As of September 30, 2023, 45% of the total construction work had been completed;
- A cathode copper processing plant is being implemented by Erdenet Mining Corporation SOE ("EMC"). EMC has started the feasibility study and detailed engineering design to increase the plant's capacity up to 10,000 metric tons per year using solvent extraction and electrowinning technology.

The following table sets forth Mongolia's key macroeconomic data for the periods and as of the dates indicated:

Macroeconomic Data	As of and for the year ended December 31,					As of and for the nine months ended September 30,	
	2018	2019	2020	2021	2022	2022	2023 ⁽¹⁾⁽²⁾
Nominal GDP (MNT billions)	32,582.6	37,839.2	37,453.3	43,555.5	53,851.5	35,908.8	46,502.2
Nominal GDP (US\$ millions) ⁽³⁾	13,178.0	14,206.6	13,312.9	15,286.4	17,146.3	11,760.3	13,382.3
Real GDP (MNT billions)	26,446.7	27,928.3	26,655.4	27,091.7	28,455.1	20,286.9	21,695.0
Real GDP (US\$ millions) ⁽³⁾⁽⁴⁾	10,696.3	10,485.6	9,474.8	9,508.2	9,060.1	6,644.0	6,243.4
Real GDP growth	7.7	5.6	(4.6)	1.6	5.0	3.8	6.9
Nominal GDP per capita (MNT thousands) ⁽⁵⁾	10,314.1	11,855.6	11,612.9	13,267.9	16,121.0	N/A	N/A
Nominal GDP per capita (US\$ ⁽³⁾⁽⁵⁾)	4,171.5	4,451.1	4,127.9	4,656.5	5,132.9	N/A	N/A
Year-on-year inflation	8.1	5.2	2.3	13.8	13.2	13.8	10.1
Exports (US\$ millions) ⁽³⁾	7,011.8	7,619.6	7,576.3	9,241.1	12,538.6	8,924.2	11,296.2
Imports (US\$ millions) ⁽³⁾	5,875.0	6,127.5	5,298.9	6,845.5	8,704.4	6,356.4	6,755.5
Balance of payments (US\$ millions) ⁽³⁾	(141.6)	452.9	786.9	(221.6)	(727.2)	(1,358.9)	791.4
Unemployment rate (%)	7.8	10.0	7.0	8.1	6.7	5.4	5.2
Gross external debt (US\$ millions) ⁽³⁾⁽⁶⁾	28,714.9	30,702.3	32,361.8	33,805.5	33,344.8	32,515.0	33,790.2 ⁽⁷⁾
Gross foreign exchange reserves (US\$ millions) ⁽³⁾	3,549.6	4,348.6	4,534.2	4,366.1	3,399.6	2,794.6	4,124.5
Gross foreign reserves import cover (months)	7.6	9.1	10.7	7.7	4.6	3.5	5.3
Population (in thousands)	3,238.5	3,296.9	3,357.5	3,409.9	3,457.6	N/A	N/A

Sources: Bank of Mongolia; World Bank; National Statistical Office of Mongolia

(1) Provisional figures subject to further adjustments.

(2) Preliminary figures as of September 30, 2023 unless otherwise indicated.

(3) The following average exchange rates (representing the average of monthly exchange rates for any given year or period as published by the Bank of Mongolia) were applied: 2018 — MNT2,472.5 = US\$1.00, 2019 — MNT2,663.5 = US\$1.00, 2020 — MNT2,813.3 = US\$1.00, 2021 — MNT2,849.3 = US\$1.00, 2022 — MNT3,140.7 = US\$1.00, September 30, 2023 — MNT3,474.9 = US\$1.00.

(4) Real GDP calculated at 2015 constant prices.

(5) Nominal GDP per capita calculated at current prices.

(6) "Gross external debt" includes external debt of and external debt guaranteed by, the Government and the Bank of Mongolia, external debt of commercial banks and other sectors and direct investment according to the Bank of Mongolia.

(7) Figures as of June 30, 2023.

The economic outlook for Mongolia remains highly uncertain as a result of, among others, (i) uncertainty regarding the lasting social, political and economic effects of the COVID-19 pandemic, which may last for a significant period of time, and the fiscal and monetary policies being implemented by the Government and regulatory authorities to alleviate these effects by increasing liquidity and supporting incomes, (ii) adverse conditions in the Mongolian and global economies and financial markets including due to the ongoing war between Russia and Ukraine and budgetary impacts as governments address the resulting higher food and energy prices and central banks raise policy rates to address ongoing global inflation, and (iii) factors such as fluctuations in coal, copper and other commodity prices and interest and exchange rates, higher unemployment, and lower consumer confidence.

Inflation

The Bank of Mongolia adopted a monetary policy framework featuring an anchoring strategy that also employs inflation targets. Under this framework, an official policy rate was introduced and has been used since 2007.

Mongolia's economy is subject to supply and demand pressures. The Bank of Mongolia takes into account the underlying pressures when making decisions to stabilize inflation. In other words, there is a distinction between supply-side and one-time pressures. On the supply side, Mongolia is a landlocked country, experiences severe winter conditions and is geographically large, all of which result in high transport costs and the potential for supply bottlenecks. On the demand side, mineral exports are a key driver of the economy but are also subject to global commodity price volatility. Government spending, moreover, is largely relative to the non-mineral economy, equivalent to roughly two-thirds of non-mineral GDP, which makes changes in government spending a key source of demand volatility. Recent monetary policy decisions have been aimed at stabilizing inflation over the medium term.

Mongolia previously experienced extremely high rates of inflation. In 2021, Mongolia's inflation rate increased to 13.8% mainly attributable to the supply-driven price increases induced by border restrictions, the spread of infectious livestock diseases and rising transportation costs. In 2022, Mongolia's inflation rate was 13.2%, primarily due to external factors such as the increased prices of imported goods. However, Mongolia's inflation rate decreased to 7.9% for the year ended December 31, 2023. This rate was within the Bank of Mongolia's inflation target of 6% +/-2% for full year 2023, primarily due to the Bank of Mongolia's timely rate tightening as it has maintained the policy rate at 13.0% since December 2022. As a result of improved monetary policy, the value of the Togrog relative to major foreign currencies in general and the U.S. dollar stabilized and has less fluctuation in 2023 compared to 2022.

In 2022, Mongolia's inflation rate was 13.2%, which was substantially above the Bank of Mongolia's inflation target, mainly attributable to increased global inflation, food, and fuel prices.

In 2021, Mongolia's inflation rate was 13.8%, which was substantially above the Bank of Mongolia's inflation target, mainly attributable to the supply-driven price increases induced by border restrictions, the spread of infectious livestock diseases and rising transportation costs.

In 2020, Mongolia's inflation rate was 2.3%, which was substantially below the Bank of Mongolia's then-inflation target of 8.0%, primarily as a result of decreased demand linked to the adverse effects of the COVID-19 pandemic on the Mongolian economy.

The Monetary Policy Committee cut the policy rate by five percentage points from 11.0% at the beginning of 2020 to 6.0% in December 2020. The impact of COVID-19 changed the external and domestic economic conditions within a short timeframe, aggravated uncertainties, and triggered a contraction in business activities. In light of these conditions, the Monetary Policy Committee's decisions were aimed at ensuring economic and financial stability while keeping inflation around the target rate. Therefore, necessary monetary measures were implemented to lessen the adverse economic consequences of the COVID-19 pandemic and to support economic activity. However, in response to the rising inflation rate beginning in 2021, the Monetary Policy Committee has steadily increased the policy rate in March 2022, by 0.5 percentage points, 2.5 percentage points, 1.0 percentage points, 2.0 percentage and 1.0 percentage in January 2022, March 2022, June 2022, September 2022 and December 2022, respectively, reaching 13.0% in December 2022. The policy rate was subsequently adjusted to 12.0% through the most recent meeting of the Monetary Policy Committee on March 15, 2024. The Monetary Policy Committee's policy actions have been targeted to return inflation to stabilizing around the target level in the medium term.

HOUSING

One of the Government's prime objectives is to provide affordable quality housing for its citizens across the country. As of December 31, 2022, approximately 38% of the Mongolian population and 22% of the population of Ulaanbaatar live in traditional gers. Gers are portable round tents that consist of a wooden frame and felt walls. The streets in the ger communities are unpaved, water supply is sporadic, waste is collected irregularly and the vast majority of the ger population is not connected to any utilities. Instead, during the winter, the ger population heat their gers with thermal coal, which is burnt in primitive coal-burning stoves. The smog caused by the coal-burning has led to high levels of air pollution and has caused a variety of medical problems for the population living in gers and beyond. In an effort to encourage the use of energy-efficient stoves and semi-coking coal to reduce air pollution, the Government has worked with Millennium Challenge Corporation to provide subsidies to families who switch from thermal coal stoves to energy-efficient stoves. Toward the end of 2016, air pollution in Ulaanbaatar exceeded 80 times the levels recommended by the WHO. In response, the Government has implemented measures eliminating the nighttime electricity tariff to encourage use of electric sources for heating rather than coal, restricting rural to urban migration in Ulaanbaatar and establishing zones in the city where coal burning is prohibited. Since March 2019, in an effort to reduce air pollution, the Government imposed a ban on the burning of raw coal in Ulaanbaatar. As a substitute, the state-owned Tavan Tolgoi Fuel Company has been supplying "refined" or "smokeless" coal briquettes to Ulaanbaatar ger district residents, which achieved significant results in reducing air pollution. In addition, the same company also applied methods to reduce the sulfur content of the coal briquettes. The Government believes that the city's air pollution has decreased substantially as a result of this change. For example, according to the Department of Meteorological and Environmental Analysis, in October 2022, the level of air pollution in Ulaanbaatar, which did not exceed the Mongolian national standard level, was 33 µg/m³ for PM_{2.5} (approximately 6% lower than October 2021), 92 µg/m³ for PM₁₀ (approximately 11% lower than October 2021), and 7 µg/m³ for nitrogen dioxide (approximately 17% lower than October 2021). However, sulfuric gas was 47 µg/m³, which was approximately 15% higher than October 2021.

The majority of people living in the ger districts of Mongolia's cities are herders who migrated from rural areas. Since the 1990s, there has been a significant increase in the migration of the population from rural to urban areas. In most cases, these herders migrated because they lost their livestock or because they were dismissed from their jobs when state enterprises and government offices closed down in the 1990s.

In an effort to address the environmental and social problems faced by residents of the ger districts, Parliament passed the New Development Medium-Term Target Program in 2010, which approved the 100,000 Housing Project, one of Ulaanbaatar's largest ongoing construction projects. Under the 100,000 Housing Project, 75,000 homes are planned to be built in Ulaanbaatar and 25,000 are planned to be built close to new mining developments. The 75,000 homes planned for Ulaanbaatar are not expected to be sufficient to house the entire ger population, but the project is expected to have a significant impact on the current situation by providing affordable housing to a portion of the ger population. Given the continuing housing shortage, another national program, "150,000 households-apartments," was approved by the Government in 2019. Within this program, measures are being taken to improve the environment by providing income-friendly mortgage loans and payments, and to reduce the cost of housing by including land and infrastructure costs with the participation of citizens. In total, 17 different locations have been set aside for the new housing projects in and around Ulaanbaatar.

The majority of the construction for the 100,000 Housing Project and the 150,000 households-apartments will be carried out by the Government and the private sector. In an effort to encourage private sector involvement, the Government plans to provide land management services, infrastructure such as power lines and other utilities and social infrastructure such as schools and hospitals. A total of 139,000 households-apartments were built under the 100,000 Housing Project from 2010 to 2019, and a total of 56,000 households-apartments were built under the 150,000 households-apartments from 2019 to 2022. The construction of the remaining households-apartments under the 150,000 households-apartments is expected to be completed by 2030.

In order to assist the ger population in financing these new homes, the Government initiated an affordable mortgage system, which features significantly reduced mortgage rates. The Government intends to continue implementing programs to support the development of households with a view to increasing the income of its economically underprivileged citizens. For subsidized housing loans, the Government is working to establish the National Housing Corporation. It plans to focus more on the local loans from 2024. Since the beginning of the program on October 12, 2013, a total of 116,400 citizens had been granted subsidized housing loans of MNT7.4 trillion.

As part of the Government's efforts to reduce air pollution in Ulaanbaatar, the Solongo 1 and Solongo 2 rental housing projects are planned to be implemented from 2021 to 2024, financed by a loan from the government of the Republic of Korea. This project will primarily be directed to house ger district residents. The preliminary drawings for the construction of these projects were received in May 2022 and confirmed in July 2022. In accordance with the relevant loan agreement, the tender document for the selection of the general contractor of the projects was prepared by the Export-Import Bank of the Republic of Korea. In September 2022, following the receipt of the final approval for bidding, all preparation works related to the selection of general contractor were completed. In August 2023, the Government signed a contract with Kolon Global Corporation LLC of the Republic of Korea, and construction of the Solongo 1 and Solongo 2 rental housing commenced.

PRINCIPAL SECTORS OF THE ECONOMY

Industry

The industry sector consists of four main sub-sectors: (i) mining and quarrying, (ii) manufacturing, (iii) construction, and (iv) electricity, gas, steam and air conditioning supply, water supply. In 2020, 2021, 2022 and the nine months ended September 30, 2023, the industry sector represented 37.0%, 37.1%, 35.3% and 36.9%, respectively, of nominal GDP.

In the nine months ended September 30, 2023, the industry sector recorded growth of 17.8%, compared with a contraction of 9.5% in the corresponding period of the previous year. This growth was mainly driven by a 33.2% increase in the mining and quarrying subsector, which was primarily due to the expansion of mining exports after the COVID-19 pandemic.

In 2022, the industry sector recorded a contraction of 4.5%, compared with a contraction of 2.2% in the previous year. This contraction was mainly driven by a 15.3% decrease in the mining and quarrying subsector, which was primarily due to the decreased production in oil, iron ore and molybdenum.

In 2021, the industry sector recorded a contraction of 2.2%, compared with contraction of 4.4% in the previous year. The smaller contraction was mainly driven by a 0.8% growth in the mining and quarrying subsector, which was primarily due to more relaxed border restrictions between China and Mongolia for parts of the year and Mongolia's overall economic recovery from the pandemic, including the growth of both mining and quarrying and non-mining and quarrying subsectors.

In 2020, the industry sector recorded a contraction of 4.4%, compared with growth of 3.1% in the previous year. This contraction was mainly driven by a 9.9% decline in the mining and quarrying subsector, which was primarily due to the substantial drop in coal exports as a result of COVID-19-related export difficulties arising from border closures.

Agriculture

The agriculture sector consists of agriculture, forestry and fishing and represented 13.0%, 13.2%, 13.0% and 11.2% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

In the nine months ended September 30, 2023, the agriculture sector recorded a contraction of 9.5%, compared with growth of 10.2% in the corresponding period of the prior year. This contraction was mainly driven by high livestock losses caused by severe winter conditions.

In 2022, the agriculture sector recorded a growth of 12.0%, compared with contraction of 5.5% in the prior year. This growth was mainly driven by newly delivered dam livestock and less natural loss of adult livestock.

In 2021, the agriculture sector recorded a contraction of 5.5%, compared with growth of 5.8% in the prior year. This growth was mainly driven by decreases in livestock products and livestock supplied for food.

In 2020, the agriculture sector recorded growth of 5.8%, compared with growth of 5.2% in the prior year. This growth was mainly driven by the stable weather conditions throughout the year.

Service

The service sector consists of four main sub-sectors: (i) wholesale and retail trade; repair of motor vehicles and motorcycles, (ii) transportation and storage, (iii) information and communication and (iv) other service activities. The service sector represented 39.5%, 39.6%, 41.0% and 41.5% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

In the nine months ended September 30, 2023, the service sector recorded growth of 8.7%, compared with growth of 6.4% in the corresponding period of the prior year. This growth was mainly driven by increases in the transportation and storage subsector.

In 2022, the service sector recorded a growth of 6.9%, compared with a growth of 3.9% in 2021. This increase was mainly driven by growth of 10.1% in the wholesale and retail trade subsector, which was primarily due to increased demand for imported goods, and 5.4% growth in the other service activities sector, which was primarily due to growth of hotel and catering services as a result of the recovery of the tourism industry after the COVID-19 pandemic.

In 2021, the service sector grew by 3.9%, compared to contraction of 6.5% in 2020. This was mainly driven by 5.8% growth in the wholesale and retail trade subsector, which was primarily due to 14.1% growth in wholesale in products other than vehicles and motorcycle, and 20.5% growth in the information and communication subsector, which was primarily due to 23.9% growth in telecommunication and 42.4% growth in other telecommunication sectors. The growth was partially offset by a contraction of 7.4% in the transportation and storage sector, primarily due to a 27.8% contraction in road transportation sub-sector.

In 2020, the service sector contracted by 6.5%, compared to growth of 6.4% in 2019. This was mainly driven by an 12.5% contraction in the wholesale and retail trade subsector, which was primarily due to lower wholesale and retail sales revenue as the transportation and storage sector contracted due to the effects of the COVID-19 pandemic lockdown and border closures, and a 18.2% contraction in the transportation and storage subsector, which was also primarily due to the effects of the COVID-19 pandemic.

Mining and Quarrying

Mining and quarrying is the most important economic sub-sector and is anticipated to continue to be the main driver of Mongolia's economic growth. The mining and quarrying sub-sector represented 23.3%, 24.7%, 23.0% and 26.9% of nominal GDP in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively.

The mining and quarrying sub-sector recorded a growth of 33.2% in the nine months ended September 30, 2023, compared with contraction of 20.1% in the corresponding period of the prior year. This growth was primarily due to the increase in production and exports of coal, as well as the opening of Oyu Tolgoi's underground mine and its increased production of copper concentrate.

The mining and quarrying sub-sector recorded contraction of 15.3% in 2022, compared with growth of 0.8% in the prior year. This contraction was primarily due to decreases in the production of coal, oil and copper concentrate.

The mining and quarrying sub-sector recorded growth of 0.8% in 2021, compared with a contraction of 9.9% in the prior year. This growth was primarily due to the increase in oil and copper concentration mining.

The mining and quarrying sub-sector recorded a contraction of 9.9% in 2020, compared with a contraction of 1.6% in the prior year. This contraction was primarily due to the substantial drop in coal exports.

The mining and quarrying sub-sector is the predominant source of Mongolia's exports, with mineral products representing approximately 69.4%, 81.3%, 84.1% and 86.1% of total exports in 2020, 2021, 2022 and the nine months ended September 30, 2023, respectively. Mongolia's mineral exports are primarily comprised of coal, copper, gold, crude oil and iron ore.

FOREIGN TRADE

In 2022, Mongolia's major trading partners were China, Russia, Japan and the Republic of Korea. Mongolia is currently negotiating free trade agreements with China, the Republic of Korea and the EU, Economic Partnership Agreement with the Republic of Korea, and Geographical Indications agreement with the EU. In November 2022, Mongolia renewed the Medium-term program of the Mongolia-Japan Strategic Partnership and established a 10-year Action Program of the "Special Strategic Partnership for Peace and Prosperity" between Mongolia and Japan with aims to deepen cooperation in politics, trade, investment, human-centered development, and mutual exchange of citizens. The EU is Mongolia's third-largest trading partner as measured by trade volume and value. Mongolian exporters benefit from near tariff-free entries in the EU, the United States, Canadian and Japanese markets through the generalized system of preferences programs, which provide developing countries with preferential access to the respective markets through reduced tariffs.

In 2023, foreign trade resulted in a total external trade turnover of US\$24,437.0 million, of which exports represented US\$15,184.50 million and imports represented US\$9,252.5 million. Total trade turnover increased by US\$3,194.0 million (15.0%) compared to the same period of the previous year, of which exports increased by US\$2,645.8 million (21.1%) and imports increased by US\$548.1 million (6.3%). The increase in exports by US\$2,645.9 million compared to the previous year was mainly due to a US\$2.4 billion increase in export of fluorspar ore and concentration. Imports increased by US\$548.1 million compared to the previous year, mainly due to a US\$150.3 million increase in import of diesel fuel, US\$100.7 million increase in import of passenger cars, and construction machinery.

In 2022, foreign trade resulted in a total external trade turnover of US\$21,243.0 million, of which exports represented US\$12,538.6 million and imports represented US\$8,704.4 million. Total trade turnover increased by US\$5,156.4 million (32.1%) compared to the previous year, of which exports increased by US\$3,297.5 million (35.7%) and imports increased by US\$1,858.9 million (27.2%). The increase in exports was mainly due to a 40.4% increase in export of mineral products. The increase in imports was mainly due to a 46.4% increase in exports of mineral products and a 38.1% increase in imports of auto, air and water transport vehicles and their spare parts.

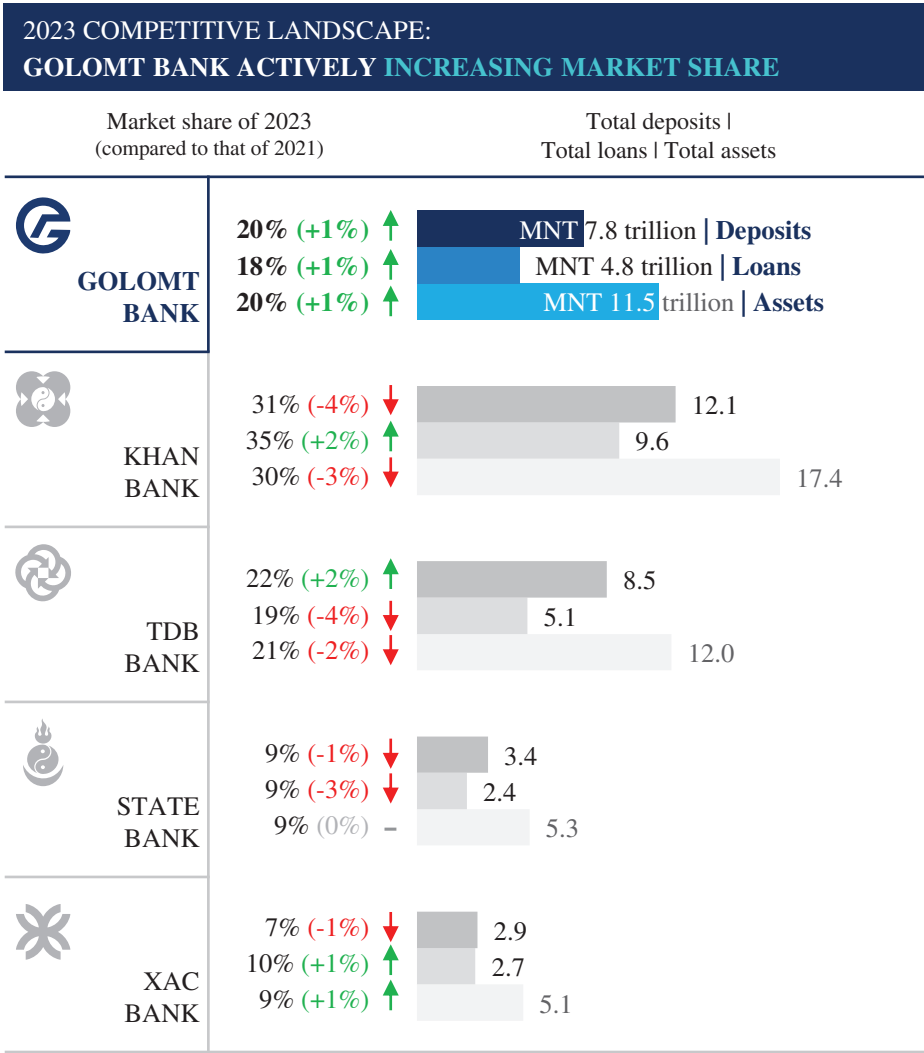
In 2021, foreign trade resulted in a total external trade turnover of US\$16,095.8 million, of which exports represented US\$9,247.1 million and imports represented US\$6,848.6 million. Total trade turnover increased by US\$3,220.6 million (25.0%) compared to the previous year, of which exports increased by US\$1,670.8 million (22.1%) and imports increased by US\$1,549.7 million (29.2%). The increase in exports by US\$1,670.8 million compared to the previous year was mainly due to a 43.0% increase in export of mineral product. Imports increased by US\$1,549.7 million compared to the previous year, mainly due to a 36.5% increase in import of diesel fuel.

Inadequate road and railway infrastructure is one of the main challenges that Mongolia faces in foreign trade. The Government intends to construct additional road and rail links connecting major mining sites and industrial areas to Russian and Chinese ports and borders and repair existing facilities.

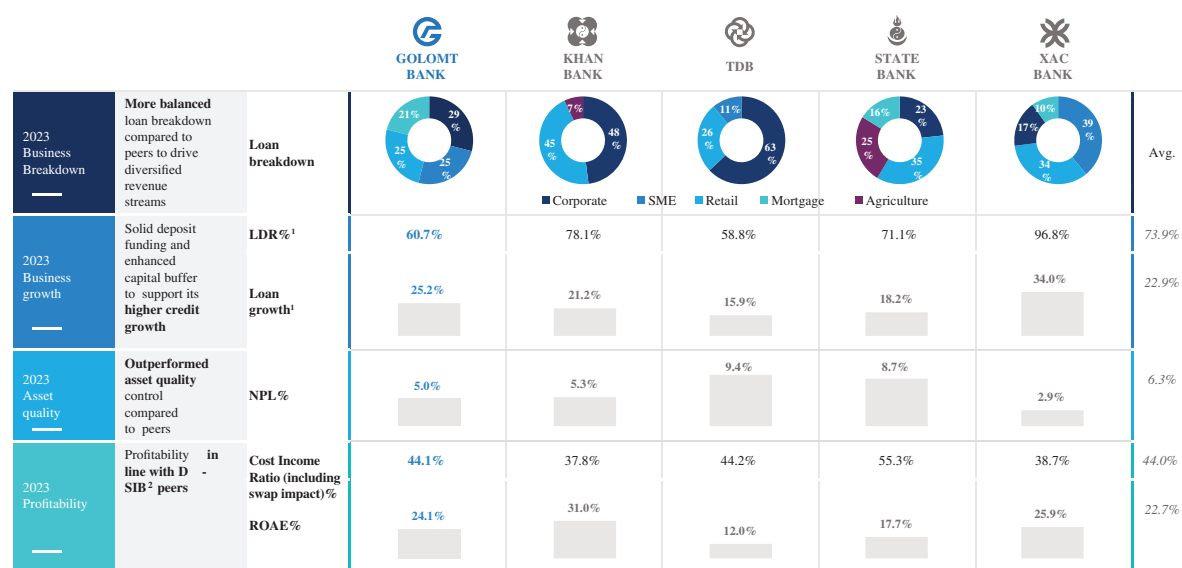
The Government plans to implement a development plan to enhance its import and export procedures by improving some of its ports of entry to meet international standards and adding equipment to support its abilities to inspect goods to ensure proper taxation of mineral exports. According to these plans, the Government intends to (i) deploy high capacity x-ray inspection equipment, which can be used to accurately determine the content, quality, and quantity of mineral and petroleum products, (ii) build specialized mineral laboratories at points of entry, (iii) establish an operational control and management center under the Customs General Administration, which will use an integrated remote surveillance system to monitor entry points, (iv) introduce “smart gate” monitoring systems to wirelessly record vehicle entries, and (v) upgrade major ports of entry to meet the international standards.

COMPETITION OF BANKING INDUSTRY IN MONGOLIA

The Bank of Mongolia reported that the total assets of commercial banks in Mongolia exceeded MNT57.13 trillion as of December 31, 2023, representing an increase of 24.1% from MNT 46.00 trillion as of December 31, 2022. The total assets were MNT41.01 trillion as of December 31, 2021. The total loans of commercial banks in Mongolia increased to MNT27.45 trillion as of December 31, 2023, representing a 23.6% growth from December 31, 2022. The total deposits of all commercial banks in Mongolia increased by to MNT38.94 trillion as of December 31, 2023, representing 26.7% or MNT8.2 trillion increase from December 31, 2022. As of December 31, 2023, Mongolia’s five domestic systemically important banks, namely Golomt Bank, Khan Bank, State Bank, Trade and Development Bank and Xac Bank, all had completed their listings on the Mongolian Stock Exchange and accounted for approximately 90% of the total assets in banking sector of Mongolia. The following table sets forth the key performance indicators of indicators of the Bank among the five systemically important banks in Mongolia.



Source: Bank of Mongolia, annual reports of banks; Market share defined as respective bank's total assets/total loans/total deposits as percentage of the Mongolia banking sector's



Notes:

1. Based on gross loan.
2. The APMs including NPL, Cost Income Ratio (including swap impact) and ROAE in the table above of the other banks are not necessarily calculated the same way as we define and calculate these measures.
3. Source: annual reports of D-SIB banks

MONGOLIA'S BUDGET

The Fiscal Stability Law and the Budget Law regulate policies relating to planning, approving, financing, and implementing the budget of Mongolia. In order to increase transparency and reduce corruption and bureaucracy, the Government has set up a publicly available website, which is administered by the Ministry of Finance and provides information on the state budget. Mongolia's annual budget preparation process includes the preparation of medium-term strategic documentation of the Government's debt management plan, a medium-term budget framework, an annual budget ceiling for each general budget governor, and an annual budget proposal and budget allocation. The Ministry of Finance leads this process, submitting the requisite materials for review by the Cabinet before submission by the Cabinet for the approval of Parliament.

Mongolia's 2024 budget was approved by Parliament on November 10, 2023. In the 2024 budget, projected total consolidated revenue for 2024 is MNT25.9 trillion (US\$7.5 billion), or 35.0% of expected GDP. Total budgeted expenditures for 2024 are approximately MNT27.4 trillion (US\$7.9 billion), or 37.0% of expected GDP. The structural budget deficit is estimated to be approximately MNT1.5 trillion (US\$0.4 billion), or approximately 2.0% of expected GDP, which is lower than 2.8% ceiling for 2024 established in the Fiscal Stability Law. Mongolia's budget policy for 2024 aims to support processing and concentration industries through tax policy, development of urban and rural area, improve the investment environment and support the securities markets.

Mongolia's 2023 budget proposal was approved by Parliament on November 11, 2022. In the 2023 budget, projected total consolidated revenue is MNT19.0 trillion (US\$5.7 billion), or 34.9% of expected GDP. Total budgeted expenditures are approximately MNT20.4 trillion (US\$6.1 billion), or 37.6% of expected GDP. The structural budget deficit is estimated to be approximately MNT1.4 trillion (US\$0.4 billion), or approximately 2.9% of expected GDP, which is lower than the 3.6% stated in the Fiscal Stability Law. Mongolia's budget policy for 2023 aims to implement prudent spending, support the New Revival Policy, reduce import pressure, and stabilize the macro-economy through optimal distribution of resources.

The 2023 supplementary budget was passed by Parliament in June 2023. The major component of the supplemental budget was the increase in mining revenue due to the increase in coal exports. The 2023 supplementary budget also increased wage, benefit, and pension expenditures to protect household income. The total revenue increase was MNT2.1 billion (US\$0.6 million) and total expenditure increase was MNT1.9 billion (US\$0.5 million). Out of the total expenditure increase, the recurrent expense increase accounted for approximately MNT1.7 billion (US\$0.5 million). This recurrent expense increase reflected the 10% increase in wages, 10% increase in pensions and the elimination of pension variance.

BUSINESS

This summary may not contain all of the information that may be important to you. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Memorandum. Investing in the Notes involves certain risks. The information set forth under “Risk Factors” should be carefully considered. Certain statements in this Offering Memorandum are forward-looking statements that also involve risks and uncertainties as described under “Forward-Looking Statements.”

OVERVIEW

We are a leading banking and financial services provider in Mongolia, offering a wide range of commercial banking services to corporate, small and medium-sized enterprise (“SME”) and retail customers. We are one of the largest banks in Mongolia with total assets of MNT11,627,844.2 million (US\$3,409.2 million) and total equity of MNT1,071,090.7 million (US\$314.0 million) as of December 31, 2023. As of December 31, 2023, we had over one million customers, representing approximately 32% of Mongolia’s population.

Given our size, scale and significant and fundamental presence in the Mongolian banking sector and overall economy, we are a domestic systemically important bank in Mongolia. As of December 31, 2023, according to our internal data, the Bank of Mongolia and the international SWIFT watch report, we had market share of 25.2%, 18.8%, 68.5% and 45.2% in terms of corporate and SME deposits, corporate and SME loans, foreign guarantees and letter of credits by amount as well as the number of funds our custodian banking serves in the Mongolian banking system, respectively. As of December 31, 2023, according to our internal data and the Bank of Mongolia, we had market share of 24.4%, 16.5%, 47.6%, 15.8% and 71.0% for retail services such as mortgage loans, individual loans, credit card loans, individual deposits and online retail transactions, respectively. As of December 31, 2023, according to our internal data and the Bank of Mongolia, we had market share of 20.1%, 17.5% and 20.0% measured by total assets, total loan amounts and total deposits, respectively. We are headquartered in Ulaanbaatar and all of our operations are conducted in Mongolia. As of December 31, 2023, we operated a network of 75 branches, including 48 branches located in Ulaanbaatar and 27 in rural areas. We also operate one of the largest ATM networks in Mongolia with 420 ATMs and CDMs.

We have been technological innovators in the Mongolian banking industry since our establishment in 1995. We introduced numerous “first-of-kind” banking products and services in Mongolia. For example, we were the first bank in Mongolia to offer MasterCard, UnionPay and American Express credit cards, 24/7 branch services, and the integrated “KHUR” system, a Government data exchange portal, to streamline the customer documentation processes and reduce paper usage. In 2013, we introduced Mongolia’s first smartphone-based banking and financial application and we believe we provide our customers with one of the most technologically advanced digital wallets and payment platforms in Mongolia through our “SocialPay” and “Smart Bank” applications. We integrated an internationally well-known core banking system, the Infosys Finacle, allowing us to deliver a wide range of high-quality services to our customers ahead of peer banks, which have only recently begun a similar integration. We have significant digital penetration across our customer base relative to our peers.

Our leadership, market position and innovations have been recognized with multiple awards. We were named “The Best Bank of Mongolia” in 2023 by *Euromoney* magazine, “The Best Domestic Bank in Mongolia 2023” by *Asiamoney* magazine, “Bank of the Year of Mongolia” for eight years by *The Banker* magazine, the “Best Digital Bank of Mongolia” for four consecutive years from 2012 to 2015 and five consecutive years from 2019 to 2023 by *Global Finance Magazine* and “Innovation Awards 2023” by *Infosys Financial* in recognition of our achievements in providing innovative products and services.

Our issuer credit rating, risk assessment — foreign currency, risk assessment — domestic currency and basic credit worthiness assessment are “B3 (Stable),” “B3/NP,” “B2/NP” and “B3,” respectively, from Moody’s Investor Services, Inc. (“Moody’s”) and our issuer credit rating, securities valuation and liquidity assessment are “B (Stable),” “B” and “B+,” respectively, from Standard & Poor’s Rating Services (“S&P”). In November 2022, we completed our IPO and listing on the Mongolian Stock Exchange.

COMPETITIVE STRENGTHS

Pivotal role in the growth and diversification of Mongolia's economy

Mongolia's long-term development policy, "Vision 2050," sets forth a clear roadmap for the country's long-term economic growth. Priorities include developing a multi-pillar, stable economy with an enhanced position in global markets, creating "smart" financial markets offering digital-based, multi-faceted financial services and promoting regional cooperation to facilitate trade. As a domestic systemically important bank in Mongolia, we play a vital role in building a diversified and sustainable economy in Mongolia and supporting Mongolia's policy objectives. We have developed a diversified and well-balanced loan portfolio that closely aligns with the Mongolian banking system's loan composition. As of December 31, 2023, our corporate, SME, retail and mortgage loans¹ represented 28.8%, 25.3%, 24.6% and 21.3%, respectively, of our total loan portfolio. These same loan categories comprised approximately 31%, 23%, 33% and 13%, respectively, of the Mongolian banking system's loan composition as of the same date. We intend to further diversify our loan portfolio to support sustainable industries and policy objectives. To that end, we are actively promoting numerous sustainable loan products including green business loans, electric and eco-vehicle loans, green housing loans, women business loans and green micro-loans and leasing in collaboration with various international financial institutions.

We strategically align our lending activities with impactful projects in Mongolia, contributing to the nation's development and growth. Examples include the Oyu Tolgoi's supply chain financing, financing road construction projects to connect rural areas and railway infrastructure projects aimed at bolstering export capabilities. As a consequence of our diverse customer base, which includes both corporates, SMEs and retail customers, we facilitate supply chain financing within our customer network to support sustainable business growth throughout Mongolia.

We have held a leading position in custodian banking since we introduced the service to Mongolia in 2014, servicing approximately 45.2% of the funds operating in Mongolia, and we have a developed bancassurance offering with a market share of approximately 23.7%, each as of December 31, 2023, according to the Bank of Mongolia. We play a vital role in supporting cross-border trade in Mongolia, both regionally and globally. We maintain a leading position in the fields of foreign guarantees and letter of credit issuance services with market share of 68.5% in terms of foreign guarantees and letter of credit by amount in the Mongolian banking system as of December 31, 2023, according to the international SWIFT watch report, and we hold a leading position in the foreign-exchange market, conducting settlements in 16 different currencies. We have solidified our collaborations with development financial institutions such as the IFC and ADB, leading to our re-onboarding as a partner bank in their global trade finance programs in 2023 and early 2024, respectively.

Strong growth with improving profitability and margins

Our growth has outpaced the banking industry in Mongolia since the Covid-19 pandemic and we are the only one of the five domestic systemically important banks to achieve growth in all of the total assets, total loans and advances to customers and total customer deposits in 2021, 2022 and 2023. Our total assets increased from MNT7,994,056.8 million as of December 31, 2021 to MNT11,627,844.2 million (US\$3,409.2 million) as of December 31, 2023, representing a CAGR of 20.6%, higher than the average of 18% of all Mongolian banks. Our total loans and advances to customers increased from MNT3,500,149.0 million as of December 31, 2021 to MNT4,877,300.3 million (US\$1,430.0 million) as of December 31, 2023, representing a CAGR of 18.1%, higher than the average of 14% of all Mongolian banks. Our total customer deposits increased from MNT5,463,543.4 million as of December 31, 2021 to MNT8,036,633.7 million (US\$2,356.3 million) as of December 31, 2023, representing a CAGR of 21.3%, higher than the average of 16% of all Mongolian banks.

Moreover, we improved core profitability and asset quality on the back of expanding margin and recovered asset quality. Our profit for the year increased from MNT25,936.7 million for 2021 to MNT209,171.0

¹ Loan amounts are presented by gross amount.

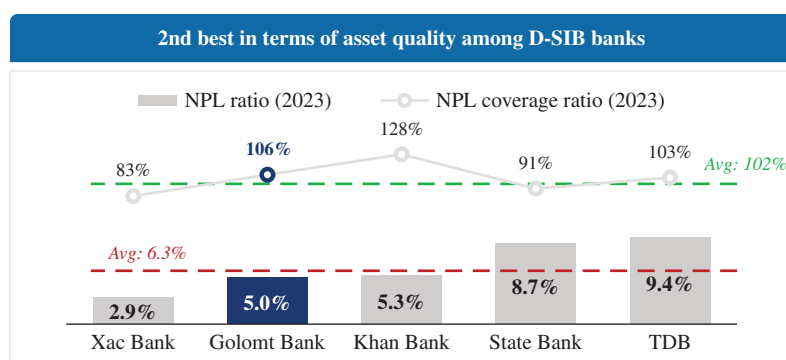
million (US\$61.3 million) for 2023, representing a CAGR of 184.0%, higher than the average of 54% of all Mongolian banks. As of December 31, 2021, 2022 and 2023, our return on average equity was 5.1%, 19.5% and 24.1%, respectively, and our return on average assets was 0.3%, 1.4% and 2.2%, respectively. In 2021, 2022 and 2023, our net interest margin was 4.6%, 5.9% and 6.5%, respectively. Our cost income ratio (including swap impact) was 41.5%, 33.3% and 44.1%, respectively.

Steady improvement of asset quality with market-leading credit quality

Our strategic portfolio rebalancing, we believe, continues to pave the way for asset quality improvement. Given the historically higher NPL ratio for corporate borrowers in the banking sector of Mongolia as compared to retail borrowers, we strategically reduced our large corporate borrowers' portfolio over the past few years and while increasing our retail portfolio, as indicated in the following diagram:



In 2021, 2022 and 2023, our asset quality improved steadily and our NPL ratios were 7.6%, 6.9% and 5.0%, respectively, our special mention loan ratios were 8.2%, 5.7% and 5.7%, respectively, and our NPL coverage ratios were 72.5%, 96.4% and 106.2%, respectively. Specifically, our asset quality ranked second as measured by NPL ratio among the five domestic systemically important banks in Mongolia. Our NPL ratio of 5.0% as of December 31, 2023 was lower than the average of 6.3% for all five domestic systemically important banks in Mongolia as indicated in the following diagram:



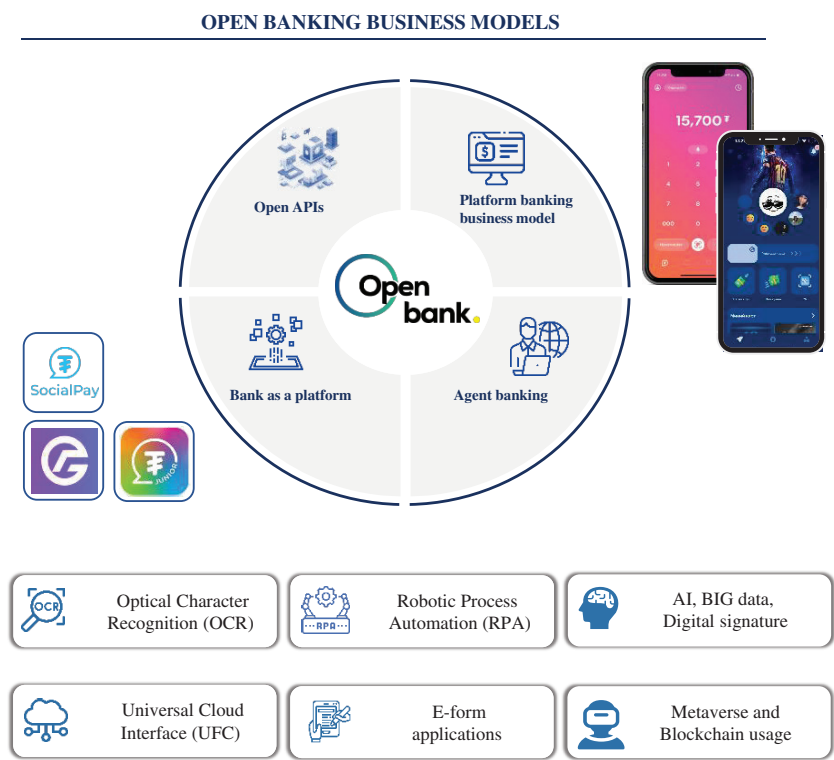
Source: annual reports of D-SIB banks

Sufficient capital buffer and sound liquidity

We have strengthened our capitalization following our IPO on the Mongolian Stock Exchange in 2022. We have built an efficient capital management system in 2023 by expanding lending size and continuous investment in digital transformation. Our capital adequacy ratios were 15.4%, 17.9% and 15.9% as of December 31, 2021, 2022 and 2023, respectively, substantially higher than the minimum capital adequacy ratio of 12% set by the Bank of Mongolia. Our Tier I capital ratio was 15.0%, 17.9% and 15.9%, respectively, substantially higher than the minimum Tier I capital ratio of 13% including 4% buffer set by the Bank of Mongolia. We maintain a stable liquidity portfolio backed by our solid customer deposit base. As of December 31, 2021, 2022 and 2023, our liquidity ratios were 41.3%, 36.3% and 38.3%, respectively, substantially higher than the minimum liquidity ratio of 25% required by the Bank of Mongolia, and our loan-to-deposit ratios were 64.1%, 67.8% and 60.7%, respectively.

Leading franchise in digital transformation and innovation

We have been technological innovators in the Mongolian banking industry since our establishment in 1995. We introduced a set of comprehensive open bank services which enable our corporate and retail customers to efficiently access daily banking services online through our application programming interfaces. We believe that we have significant digital penetration across our customer base. For example, our digital users increased from approximately 619,000 as of December 31, 2021 to approximately 832,000 as of December 31, 2023, representing a CAGR of 15.9%. As of December 31, 2023, 73% of our total customers were digital users and 98% of transactions happen in online channels.⁽¹⁾ As of December 31, 2023, according to our internal data and the Bank of Mongolia, we had market share of 19% in terms of digital user base in the Mongolian banking system. We believe we have established a more cost-efficient operation driven by the digitalization of work streams, which resulted in MNT106 billion transaction and service costs saved in 2021, 2022 and 2023.



Our digital products and service experience has led to higher customer satisfaction. According to our online customer satisfaction survey in 2023, 79% of our customers indicated they were satisfied with our online and mobile banking services and 82% of our customers indicated they were satisfied with our “SocialPay” digital wallet product. We were granted “Innovation Awards 2023” by *Infosys Financial*, “The Best Digital Bank in Mongolia 2022” by *Global Finance*, and the “Best Product and Services 2023” award by *Mindgolia* in recognition of our achievements in providing innovative products and services.

Notes:

1. Online transactions encompass all forms of bank transactions conducted by customers through internet banking, mobile applications (such as Smart Bank and SocialPay app), and KIOSK channels. These are compared against the total number of the Bank transactions.

Proven path and unwavering commitment to Sustainability

We have developed a comprehensive sustainable banking framework supported by four key pillars: (i) sustainable governance; (ii) climate risk management; (iii) sustainable finance; and (iv) stakeholder engagement. We support 11 of 17 sustainable development goals of the United Nations as well as of the Paris Agreement’s goal of transitioning to net zero emissions by 2050 as indicated in the diagram below.



Consistent with our sustainable banking commitment, our green loan portfolio increased from MNT98 billion as of December 31, 2021 to MNT183 billion (US\$53.7 million), as of December 31, 2023, representing a CAGR of 36.7% and we expect this growth in our sustainable loan portfolio to continue. We offer comprehensive sustainable loan products to our customers which are designed to encourage customers to adopt sustainable practices. Our sustainable loan products include sustainable and green business loans, electric and eco vehicle loans, green housing loans, women business loans and green micro loan and leasing. The maximum credit lines across these product categories range from MNT20 million to MNT10 billion with tenors ranging from 30-240 months.

In 2019, we established our Sustainable Development Committee and Gender Equality Committee to advance our ESG-focused activities, and we aim to reduce greenhouse gas emissions in our operational footprint by 2050. We developed our sustainable finance framework in March 22, 2024, and obtained the S&P Global Ratings SPO (Second Party Opinion) on April 8, 2024.

We have a diversified sustainable loan portfolio supporting our strategy objectives in support of Mongolia’s “Vision 2050” development plan and the United Nations SDGs. Recent loans include financings for: (i) a seven-year US\$6.1 million loan to a leading pharmaceutical company to fund its first plant-based energy efficient pharmaceutical factory with GMP-standards; (ii) a five-year US\$2.4 million loan to a global packaging solutions company to fund its production line of paper recycling using 100% ecofriendly raw materials; (iii) a three-year US\$17 million loan to a Mongolian cashmere company to fund sustainable agriculture and purchase of green equipment related to cashmere, camel and wool products; (iv) a three-year US\$9 million loan to a real estate development company for financing an energy efficient housing development project for 125 households and (v) a five-year US\$2.2 million loan to finance a leading recycling factory. For additional information, see “Sustainable Banking” and “Sustainable Development Impact.”

Seasoned and visionary management and board team

We have an innovative management team with outstanding strategic vision and rich industry experience. Our management team has diverse backgrounds and many members have worked in various aspects of the financial services industry for decades. Mr. Norihiko Kato, our chief executive officer has over 30 years' experience in the banking industry and has held leadership positions in a large global bank. Mrs. Munkhtsetseg, our chairperson, possesses decades of relevant experience and has held consulting, managerial and executive roles at the World Bank, the Asia Foundation and Nepko Publishing Company. Our senior management team has an average of 19 years' experience in the financial services industry, and their rich management experience has enhanced our business development, compliance management and financial performance.

STRATEGIES

We aim to maintain and further develop our vision as Mongolia's global benchmark bank and our mission to be the genesis of prosperity. We intend to implement the following strategies to achieve these objectives:

Continue to digitally transform our operations and service delivery to customers

We have been a pioneer in the Mongolian banking sector, and we pride ourselves on our commercial and innovative spirit. We intend to leverage our innovative heritage to further implement our digital transformation strategy, which will be led and promoted by our Digital Transformation Division. We intend to provide customers with more digital products and services in line with a customer-centric and “invisible” banking strategy to drive further digital customer engagement across our products and services. These products include digital salary and pension loans, digital consumer and green consumer loans and an enhanced, automated loan process to speed up the approval timeline. Also, we intend to offer “smart” kiosks in our branch locations that provide a suite of products and services to our customers via a digital interface as well as open additional customer service channels through virtual assistants and AI-driven chatbots. We plan to expand our card payment/QR code payment options and further expand the products and services offered on our “SocialPay” digital wallet such as virtual credit cards and direct linkage to gaming and AR/VR, third-party products and family saving products.

Expand and enhance our customer base through innovative products and services and market-leading customer experience

We plan to grow our customer base by offering new and innovative products and services through our digital channels and expand our branch network to cater to specific customers and geographies. For example, we expect to open seven new VIP branches to attract more high-net worth individuals and drive new business to our wealth management products. We plan to develop financial and investment advisory as well as investment banking services. Also, we plan to open “GenZ” centers to attract and activate a younger customer base and further drive our digital product and services. We plan to open four more branches in rural areas in 2024 and fully cover all provinces of Mongolia with our branch office presence by 2026. We intend to add 75 “smart” kiosks and 100 ATMs to our network to further increase our reach and digital touchpoints with our current customers.

We have received positive feedback from our customers regarding our customer service and we intend to continue to focus on customers through: (i) ensuring customer experience excellence by providing digital and third-party collaborations with customers, providing innovative products and services and superior customer complaint handling; (ii) high-quality operations through improved products, services and technology upgrades; and (iii) providing easy-to-understand products and services through fully functional product offerings and text and video content for customers explain new products and services.

Strengthen our commitment to sustainable banking

We intend to collaborate with our stakeholders to foster sustainable industries in Mongolia and to contribute to a sustainable global environment. We have developed a comprehensive sustainable banking framework supported by four key pillars: (i) sustainable governance, under which we plan to develop a sustainability-driven governance across the Bank, reduction of our own environmental and social footprints and green capacity building of our employees; (ii) climate risk management, under which we intend to enhance our environmental and social risk management system and further align our business with our commitment to reduce climate change risk and contribute to the national and international goals of reducing greenhouse gas emissions; (iii) sustainable finance, under which we plan to further build our green loan portfolio based on Mongolia's green taxonomy with intended goal of green loans comprising 5% of our total portfolio by 2025 and 10% by 2030; and (iv) stakeholder engagement under which we intend to collaborate with key stakeholders of sustainable development implementation in Mongolia, including our clients, regulators and policy makers, and local and international partners. We support 11 of 17 sustainable development goals of the United Nations as well as of the Paris Agreement's goal of transitioning to net zero emissions by 2050, which are good health and well-being, quality education, gender equality, clear water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, sustainable cities and communities, responsible consumption and production and climate action. For additional information regarding our sustainable banking policies and initiatives, see "Sustainable Banking."

Enhance branding, stakeholder engagement and employee focus

We intend to create and maintain our image and brand as a trustworthy and reliable bank and further strengthen our market leading position in the Mongolian banking industry. We intend to continue to build our image as Mongolia's global benchmark bank and as a genesis of prosperity for current and future generations of Mongolians. Following our IPO in 2022 and as our stakeholder base continues to diversify, we intend to continue to augment our stakeholder engagement through regular investor relations exercises, focused PR initiatives and communication and active participation in global conferences and in-person and virtual management roadshows. We believe our customer service is important to driving growth, and investment in our employees is a key to that success. With over 2,300 employees, we strive to be one of the leading employers in Mongolia. We intend to continue to offer competitive salaries, benefits and comprehensive training programs to our staff and we aim to foster a supportive culture with a flexible working environment to broaden opportunities for professional growth.

OUR HISTORY AND KEY MILESTONES

We were established on March 6, 1995 as a subsidiary company of Bodi International LLC, a major player in the social and economic sector of Mongolia. We started our operations with four employees and a capital of MNT436 million, by the order No. 50 of President of Mongolia and opened the first sub-branch of savings bank in 1995. In November 2022, we became a joint-stock company with our shares listed on the Mongolian Stock Exchange.

The following table sets out our milestone events since our inception:

Year	Milestone
1995.	Golomt Bank was established.
1996.	Introduced Golomt payment checks as an advanced non-cash payment method.
1996.	Introduced mobile banking service called "call banking service."
1997.	Introduced 24-hour banking services for the first time in Mongolia.
1999.	The first international payment card system was introduced in Mongolia.
1999.	Mastercard card issuing bank for sub-card issuers in Mongolia.

Year	Milestone
2000.	Issued small business loans for the first time, amongst Mongolian commercial banks.
2000.	We were the first bank in Mongolia to join the Western Union international money transfer network.
2000.	Golomt Bank issued its Visa card.
2000.	Joined the Society for Worldwide Inter-Bank Financial Telecommunications (“SWIFT”) international payment network.
2001.	International information trading network Reuters started trading.
2002.	Introduced Internet banking service for the first time.
2002.	Cooperated with Khan Bank, Capitron Bank and Zoos Bank to issue MasterCard and Visa payment cards.
2003.	Business organizations initiated the Golomt Bank Student Scholarship Program.
2004.	Golomt Bank first introduced a magnetic tape secure passbook.
2007.	Introduced e-token solution for Internet banking services.
2008.	Introduced the first Europay, MasterCard and Visa (“EMV”) chip card with security standard no. 1 in Mongolia.
2009.	Introduced mobile banking service.
2010.	The UnionPay yuan card was introduced in the international market for the first time.
2011.	Successfully implemented employees equity program.
2012.	Introduced export and foreign trade financing products in cooperation with ODDO BHF, Commerzbank and EXIM bank.
2012.	Introduced a smart phone based banking service for the first time in Mongolia.
2012.	Agreement with ADB for trade finance facilitation.
2013.	American Express card was introduced for the first time in Mongolia.
2013.	Introduced Mongolia’s first smartphone-based banking and financial application.
2014.	Became the first bank in Mongolia to have a license to operate custodian banking service.
2014.	Successfully introduced the Finacle system which fully met international standards.
2015.	Golomt Bank started providing custodian banking services.
2015.	100% insured corporate bonds were being traded for the first time in Mongolia.
2016.	Became a member bank of IFC’s Global Trade Finance Program.
2016.	Initiated and implemented the National Savings Program.
2016.	“Copper” post-paid card was introduced to the market.
2016.	Kiosk machine service introduced for the first time.
2017.	Introduced SocialPay digital wallet, an innovative fintech service, for the first time in Mongolia.
2017.	Introduced Digital Banking 5.0.
2019.	Golomt Bank developed the “Principles of Responsible Banking” in collaboration with 30 banks from 19 countries.
2019.	Updated internet banking and smart banking services and introduced NFC remote technology to credit cards.

Year	Milestone
2020.	First digital banking services launched in Mongolia.
2020.	As part of the OPEN BANKING strategy, we offered four types of gateway services to our customers: Payment gateway, Corporate gateway, Retail gateway, and Government gateway.
2021.	Introduced Si debit and credit card products.
2022.	Completed our IPO on Mongolian Stock Exchange and became a joint-stock company. Introduced the international card “CARDZONE” card system. First open banking services launched in Mongolia.
2023.	Opened seven banking partnerships with the banks in the UK, New Zealand, Spain and Germany.
2023.	Introduced “Women-owned” trademark to support women entrepreneurs and established banking partnerships with banks of UK, New Zealand, Spain and Germany in currencies such as USD, EUR and GBP.

OPERATING SEGMENTS

We organize our principal activities into four operating segments: retail banking, SME banking, corporate banking and other banking activities. Our retail banking segment includes banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages which include the provision of mortgage finance. Our SME banking segment represents current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and other products to SME customers. Our corporate segment includes banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies. Our other segment includes central treasury, which includes funding and centralized 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.

The following table sets forth the interest income and non-interest income (including interest income, net fee and commission income and other operating income but excluding interest expenses) of each segment, and percentage of each segment relative to Total Operating Income, for the periods indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>(MNT millions)</i>	<i>%</i>	<i>(MNT millions)</i>	<i>%</i>	<i>(MNT millions)</i>	<i>%</i>
Retail banking	174,685	35.1%	227,565	35.6%	318,973	39.8%
SME banking	127,852	25.7%	155,956	24.4%	180,178	22.5%
Corporate banking	164,327	33.0%	151,689	23.7%	180,069	22.5%
Other ⁽¹⁾	31,436	6.3%	104,242	16.3%	122,340	15.3%
Total	498,299	100.0%	639,452	100.0%	801,560	100.0%

(1) Including central treasury. Funding and centralized risk management activities through borrowings and investing in liquid assets such as short-term placements and corporate and government debt securities.

Retail banking

We provide a wide range of retail banking services in Mongolia to individuals. We aim to provide a full range of retail banking services, with particular emphasis on the quality of service, to expand our customer base.

Our retail banking products and services include retail lending, savings, current accounts, digital banking, consumer loans, mortgages, debit and credit card activities.

We are one of the leading banks in the retail deposit-taking market in Mongolia. Our retail deposit base was MNT3,173,055.5 million, MNT3,014,977.4 million and MNT3,470,789.3 million (US\$1,017.6 million) as of December 31, 2021, 2022 and 2023. To attract more customers for our deposit-taking business, we launched several campaigns to encourage saving habits.

To provide convenient means of completing transactions with our customers, we operate a large ATM network in Mongolia. As of December 31, 2023, we operated 420 ATMs and CDMs strategically located at our branches and other convenient locations. Our ATM network accepts both domestic and international cards and accounts for approximately 15% of all ATMs in Mongolia, according to a report of the Bank of Mongolia. We charge domestic interchange fees for accepting cards from the Bank of Mongolia's switching center and also a reimbursement fee for international transactions. We believe that our ATM services assist us in attracting new customers and increasing cross-selling opportunities. As a result, we intend to continue to upgrade and expand our ATM network in the future.

The following table sets forth the contribution to our Total Operating Income from retail segment, by type of retail banking product, for the periods presented:

	For the year ended December 31,					
	2021		2022		2023	
	(MNT millions)	%	(MNT millions)	%	(MNT millions)	%
Consumer loans	102,621	59%	109,864	48%	154,398	48%
Card activities	12,092	7%	27,121	12%	24,358	8%
Mortgage loans	52,354	30%	64,951	29%	106,265	33%
Others	7,907	5%	25,628	11%	33,952	11%
Total	174,685	100%	227,565	100%	318,973	100%

Our retail loans to customers were MNT1,274,968.3 million, MNT1,681,884.0 million and MNT2,194,692.7 million (US\$643.5 million) as of December 31, 2021, 2022 and 2023, respectively. As of December 31, 2023, our retail loans to customers account for 46.6% of our total loan portfolio.

Retail lending

Our retail lending activities include the provision of consumer loans and credit facilities, which are principally in Tugriks or U.S. dollars, to individuals in Mongolia. Our loans to individuals primarily comprise consumer loans, card activities and mortgages. It is our policy to ensure that all of our retail loans are fully secured. As of December 31, 2023, our market share among all banks in Mongolia in terms of salary loans was 18.5%.

The following table sets forth the composition of our retail loan portfolio by category as of the dates specified:

	As of December 31, 2023	
	<i>(MNT millions)</i>	<i>%</i>
Salary loan	788,612.8	35%
Card activities	63,675.5	3%
Mortgage loans	1,036,574.4	46%
Car loans	12,192.1	1%
Savings backed loans	128,225.7	6%
Other	206,044.2	9%
Total	2,235,324.8	100%

Our interest income from our retail loan portfolio totaled MNT171,085.6 million, MNT199,020.7 million and MNT284,480.2 million in 2021, 2022 and 2023, respectively.

Card activities

We are the first bank to introduce an international payment card system in Mongolia. In 1999, we issued the first Master Card in Mongolia after becoming an official member of Mastercard worldwide. We issue debit cards and credit cards from Visa, Mastercard, UnionPay and American Express to our retail customers. In 2023, we had issued approximately 141,524 bank cards, of which approximately 120,344 were debit cards and approximately 460,849 were credit cards. As of December 31, 2023, 65.0% of our total customers are receiving banking services digitally and 97.0% of our total customers making their transactions via digital channels. As of December 31, 2023, our market shares among all banks in Mongolia in terms of credit cards issued and outstanding overdrafts of card loans were 41% and 13.6%, respectively, according to our internal data.

Our card business is a source of fee and commission income and provides significant cross-selling opportunities, and we continue to conduct research on new credit products to offer to our customers. We offer platinum credit cards to high-net-worth customers and corporate credit cards to corporations. As of December 31, 2023, our credit card advances amounted to MNT63,675.5 million (US\$18.7 million), which represented 2.8% of our retail loan portfolio.

Income from bank card fees and commissions were MNT34,959.2 million, MNT48,568.1 million and MNT56,561.1 million (US\$16.6 million) in 2021, 2022 and 2023.

Mortgage lending

We offer Mongolian residents mortgage housing loans, which can be used for the purchase or construction of residential property as well as subsequent renovations. Our residential loan portfolio includes mortgages that are self-funded by us and mortgages that are funded by the Bank of Mongolia under the AHFP to provide middle and lower-middle income households access to affordable mortgage financing. As of December 31, 2023, 21.3% of our loan portfolio was comprised of mortgage loans and we believe we have approximately 24.4% of the mortgage loan market in Mongolia according to our internal data and the Bank of Mongolia.

SME Banking

As of December 31, 2023, we provided our products and services to 1,931 SME customers and focus to expand our operations in the future. Our market shares among all banks in Mongolia in terms of SME loans⁽¹⁾, individual deposits and individual loans were 20.6%, 15.8% and 16.5%, respectively. For the years ended December 31, 2021, 2022, and 2023, the SME sector represented MNT127,852 million,

Note:

1. The SME loan market share is a combination of SME and large retail customers.

MNT155,956 million, and MNT180,178 million or 25.7%, 24.4%, and 22.5% respectively, of our total operating income. As of December 31, 2021, 2022 and 2023, our loan portfolio extended to the SME sector was MNT869,615.6 million, MNT930,075.5 million and MNT1,206,723.1 million as of December 31, 2021, 2022 and 2023, representing 26.0%, 25.2% and 25.6% of our total loan portfolio, respectively.

The following table sets forth the industry breakdown by percentage of our total SME loans as of December 31, 2022 and 2023:

	As of December 31,	
	2022	2023
Industry		
Trade — Whole & Retail	36.0%	38.8%
Service	31.0%	33.8%
Manufacturing	11.0%	8.5%
Construction.	10.0%	9.5%
Mining & Exploration.	5.0%	4.5%
Agriculture.	2.0%	1.5%
Others	6.0%	3.3%
Total	100.0%	100.0%

For 2021, interest income from our loan portfolio extended to the SME sector totaled MNT96,996.4 million, at an average rate of 12.5% per annum. Interest income from our loan portfolio extended to the SME sector increased by 20.8% to MNT117,194.7 million for 2022, at an average interest rate of 13.0% per annum. Interest income from our loan portfolio extended to the SME sector increased by 24.2% to MNT145,514.1 million (US\$42.7 million) for 2023, at an average interest rate of 13.6% per annum.

Corporate banking

We provide a wide range of corporate banking services in Mongolia to various leading Mongolian corporate customers and serve substantially all of Mongolia's major business sectors. We aim to be the corporate banking service provider of choice to our existing customers while, at the same time, seeking to attract new corporate customers. Our corporate banking products and services include corporate lending, trade finance, syndicated lending and deposit-taking. We also provide our corporate customers with a variety of fee and commission-based services, such as cash management services and remittances. We were ranked fourth of 100 top company by Mongolian National Chamber of Commerce and Industry in 2022 in recognition of our outstanding corporate banking services.

Corporate lending

As of December 31, 2023, we had approximate 18.8% market share in corporate and SME loans in Mongolia, according to our internal data, the Bank of Mongolia and the international SWIFT watch report. The following table sets forth the contribution to the interest income and non-interest income of our corporate banking segment by type of corporate banking product, for the periods indicated:

	For the year ended December 31,					
	2021		2022		2023	
	(MNT millions)	%	(MNT millions)	%	(MNT millions)	%
Corporate lending	139,331.3	84.8%	119,773.4	79.0%	155,708.6	86.5%
Trade finance ⁽¹⁾	9,805.9	6.0%	9,466.5	6.2%	11,092.7	6.4%
Commitment fees	9,171.5	5.6%	12,770.9	8.4%	3,340.7	1.9%
Others	6,018.7	3.7%	9,678.0	6.4%	9,539.2	5.3%
Total	164,327.4	100.0%	151,688.8	100.0%	180,069.3	100.0%

(1) “Trade finance” includes letters of credit and letters of guarantee only, which credit activities are primarily directed to our corporate customers to finance import and export activities.

Our corporate lending activities include providing loan and credit facilities in Tugriks and foreign currencies, principally U.S. dollars, to corporate clients in Mongolia, overdraft and revolving credit facilities, investment loans, saving collateralized loans, gold collateralized loans, working capital loans and commercial mortgages with tenors ranging from 12 months to five years. Our corporate loans typically fund our customers’ imports, general working capital needs and capital expenditure requirements, with a majority of such loans having maturities of three years or less. As demand for long-term financing from customers increases, we intend to increase our loan maturity limits accordingly. Our corporate customers include 87 of top 100 companies in Mongolia.

As of December 31, 2021, 2022 and 2023, our corporate loans¹ amounted to MNT1,194,590.9 million, MNT1,085,673.8 million and MNT1,310,692.9 million (US\$384.3 million), respectively, representing 35.8%, 29.4% and 27.8% of our total loan portfolio, respectively as of the same dates.

Our interest income from our corporate loan portfolio totaled MNT149,137.2 million for 2021, which decreased by 13.3% to MNT129,239.9 million for 2022 and increased by 29.4% to MNT167,189.4 million (US\$49.0 million) for 2023. We had 81,869, 87,869, and 91,706 corporate customers as of December 31, 2021, 2022 and 2023, respectively.

In 2023, we provided (i) MNT42 billion financing for projects classified as green loans and EE buildings and 100% electric bus; (ii) MNT100 billion financing for supermarkets and shopping centers’ building projects which has created 620 new jobs; (iii) MNT64.3 billion for food and agriculture sector in the scope of “Food Supply and Security” national campaign and (iv) MNT148 billion for responsible mining companies. In 2022, we provided (i) MNT86 billion financing for food production and trade which has created 735 new jobs; (ii) financing to replace up to 60% of imported disposable syringes in Mongolia, with the capacity to produce 45% of the single-use syringe production market; (iii) MNT80.0 billion financing for the power plant project to increase the power system of the central region; and (iv) financing and guarantee services for a total of 550 km long railway projects.

¹ Loan amounts are presented by net amount after expected credit loss.

The following table sets forth the industry breakdown by amount and percentage of our total corporate loans as of December 31, 2023:

	As of December 31, 2023	
	Amount	Percentage of the total corporate loan portfolio
	<i>(MNT billions)</i>	
Industry		
Mining and quarrying	139,580.9	9.9%
Corporate Trading	608,954.1	43.3%
Construction	117,747.4	8.4%
Manufacturing	140,888.6	10.0%
Petrol imports and trade	184,598.2	13.1%
Transportation and communication	33,819.6	2.4%
Agriculture	3,550.7	0.3%
Others	176,804.5	12.6%
Total	1,405,943.9	100.0%

Corporate deposit taking

We are one of the leading banks in the corporate deposit-taking market in Mongolia. As of December 31, 2023, we had approximate 25.2% market share in corporate and SME deposits in Mongolia, according to our internal data, the Bank of Mongolia and the international SWIFT watch report. Our corporate deposit base totaled MNT1,231,819.4 million as of December 31, 2021, which increased by 28.4% to MNT1,581,658.4 million as of December 31, 2022, and increased by 97.5% to MNT3,124,424.1 million (US\$916.1 million) as of December 31, 2023.

Our corporate deposit products consist of current/settlement accounts, demand deposits and term deposits.

Cash management services

We provide various fee-based cash management services to our corporate customers, including wire transfer, cash collection, processing of salary and other benefit payments and clearance of cheques. For 2021, 2022 and 2023, we generated a fee and commission income from our cash management activities of MNT377,875,344.8, MNT699,325,915.8 and MNT1,207,479,514.6, respectively.

Remittances

We provide remittance services including international settlement and payment. We generate revenue from remittances by charging a fee for each transaction. These charges vary depending upon the service required from us and the country of origin of the remittance. We also generate a margin from the daily conversion of inward foreign exchange into local currency. Remittances are carried out on behalf of our corporate customers in Mongolia. We generated operating income from remittance services in the amount of MNT5,226.2 million, MNT6,425.6 million and MNT8,070.8 million, respectively in 2021, 2022 and 2023.

OTHER

Treasury activities

Our treasury activities include deposits with financial institutions, securities trading and liquidity management, foreign exchange trading and gold and silver trading. Our treasury department handles our cash reserve management and short-term investment operations and holds some of the reserves in the current account with the Bank of Mongolia in order to fulfill the statutory deposit requirement and meet the payment orders of our customers. In addition, we place our excess funds in foreign currencies at our correspondent banks for the purposes of foreign currency payments. We handle transactions in equity securities, foreign exchange and physical gold trading with the primary focus of such transactions is to meet client needs rather than directly generate revenue for us. Income generated from treasury activities represented MNT177,704 million or 50.4% of our total operating income for 2021, represented MNT236,825 million or 48.1% of our total operating income for 2022, and represented MNT326,465 million or 55.6% of our total operating income for 2023.

The following table sets forth the contribution to our total treasury activity operating income, by type of treasury activity (excluding derivatives), for the periods presented:

	For the year ended December 31,					
	2021		2022		2023	
	(MNT millions)	%	(MNT millions)	%	(MNT millions)	%
Securities trading and						
liquidity management	106,095	60%	113,350	48%	187,274	57%
Foreign exchange trading	20,552	12%	48,169	20%	54,004	17%
Deposits with financial institutions . .	29,522	17%	43,054	18%	47,978	15%
Gold trading	4,786	3%	7,815	3%	9,363	3%
Others	16,750	9%	24,437	10%	27,847	9%
Total	177,704	100%	236,825	100%	326,466	100%

Deposits with financial institutions

As of December 31, 2023, we had placed local and foreign currency denominated term deposits with banks and financial institutions totaling MNT944.1 billion, which are two deposits of MNT684.8 billion with a maturity of 103 and 533 days at an interest rate of 1.90% and 0.67%, respectively.

Securities trading and liquidity management

We actively participate in securities trading and investment for our own account in the primary and secondary markets to assist us in the management of our liquidity position and to generate interest income and capital gains. Our investment portfolio primarily consists of available-for-sale securities consisting of Government bonds, corporate bonds and treasury bills. We trade primarily in Bank of Mongolia Central Bank Bills and invest in Government bonds with a maturity of one to eight years.

Our securities trading volume decreased by 40.1% from MNT18,008,737 million in 2021 to MNT10,781,352 million in 2022. Our securities trading volume increased by 15.6% to MNT12,463,071 million in 2023 as a result of an increase in our trading of treasury bills. Our securities portfolio decreased by 37.3% from MNT1,997,912.6 million as of December 31, 2021 to MNT1,252,764.5 million as of December 31, 2022 due to a decrease in our trading of treasury bills, and increased by 40.3% to MNT1,757,175 million as of December 31, 2023, due to an increase in our trading of treasury bills. The following table sets forth details of our trading securities in Bank of Mongolia Central Bank Bills:

As of December 31,								
2021			2022			2023		
<i>Term (days)</i>	<i>(MNT millions)</i>	<i>Yield (%)</i>	<i>Term (days)</i>	<i>(MNT millions)</i>	<i>Yield (%)</i>	<i>Term (days)</i>	<i>(MNT millions)</i>	<i>Yield (%)</i>
7 days	37,987	6%	28 days	349,430	12%	28 days	597,038	13%
28 days	1,525,966	6%	28 days	298,043	13%	196 days	380,997	14%
			196 days	52,738	14%			
			196 days	42,798	15%			
	<u>1,563,953</u>			<u>743,009</u>			<u>978,035</u>	

The following table sets forth details of our trading securities in local currency Government bonds:

Term	As of December 31,					
	2021		2022		2023	
	<i>(MNT millions)</i>	<i>Yield (%)</i>	<i>(MNT millions)</i>	<i>Yield (%)</i>	<i>(MNT millions)</i>	<i>Yield (%)</i>
up to 1 year	—	—	—	—	—	—
1-3 years	—	—	—	—	—	—
above 3 years	4,685	12.75%	4,699	12.75%	—	—
	<u>4,685</u>	<u>—</u>	<u>4,699</u>	<u>—</u>	<u>—</u>	<u>—</u>

The following table sets forth details of our trading securities in U.S. dollar — denominated Government bonds:

Term	As of December 31,					
	2021		2022		2023	
	<i>(MNT millions)</i>	<i>Yield (%)</i>	<i>(MNT millions)</i>	<i>Yield (%)</i>	<i>(MNT millions)</i>	<i>Yield (%)</i>
up to 1 year	—	—	10,154	5.63%	3,885	8.75%
1-3 years	9,666	8.75%	13,719	8.75%	39,592	5.13%
above 3 years	176,484	4.45%-8.75%	181,926	4.45%-8.75%	355,425	3.5%-8.75%
	<u>186,150</u>	<u>—</u>	<u>205,799</u>	<u>—</u>	<u>398,902</u>	<u>—</u>

Foreign exchange trading

We conduct foreign exchange trading activities principally on behalf of our customers in several of the world's major currencies, including U.S. dollars, Euros, Japanese yen and Pound Sterling and maintain small positions for our own account. We also play a key role in supplying market information and expert analysis on the economic situation, monetary policy and currency demand and supply to the Bank of Mongolia.

Our foreign currency assets amounted to MNT3,268,262 million as of December 31, 2021, which increased by 30.1% to MNT4,251,221 million as of December 31, 2022, and increased by 8.2% to MNT4,601,224 million by December 31, 2023. The increase in our foreign exchange assets from December 31, 2022 to December 31, 2023 was due primarily to an increase of our customer accounts denominated in foreign currency.

Custodian banking

Through our partnership with 19 broker companies, we provide custodian banking services to over 45% of the market including over 1,467 local customers, 17 major international customers, and 19 funds. Furthermore, the bank is the only sub-custodian bank for world-renowned JP Morgan bank in Mongolia.

International Cooperation

We offer a wide range of services in collaboration with over 300 banks and financial institutions worldwide through SWIFT system. We have credit lines of total US\$120.0 million for trade finance and USD152.0 million direct borrowing from the major international banks. We also have largest correspondent banking network in Mongolia with 50 nostro accounts worldwide. We issued 43.9% of the total import letter of credit to China and advised 100% of the total export letter of credit received from China by 2023. We have extensive experience in working with Export Credit Agencies (ECA) and development banks of Germany, Netherlands, Czech Republic, Hungary, Italy, Denmark, Canada, Poland etc. for financing the Mongolian local projects. Transactions worth US\$12.1 billion were wired and received through us in 2023 and we conducted approximately 134,000 transactions in 2023.

BRANCH NETWORK

Our business activities are conducted principally through our branch network in Mongolia under supervision from our head office. Our branches are the first and most frequent point of contact for our customers. Therefore, in order to deliver the best possible services, we have staffed our branches with employees who have undergone training at the head office and who are also familiar with the local region and our customers. As of December 31, 2023, we operated a network of 75 branches in Mongolia, including 48 branches located in Ulaanbaatar and 27 in rural areas. We also operate one of the largest ATM networks in Mongolia with 420 ATMs and CDMs.

FUNDING

Our primary source of funding is derived from the current and deposit accounts of our corporate and retail customers, which represents 78.1% of our total source of funding. Retail customers maintain current accounts in several major currencies. We also provide alternative deposit products such as term deposits, deposits with advance interest payment and savings accounts in both local and foreign currency. We believe that our deposit products are competitive not only because of high interest rates but also due to our service quality, extensive branch network, and convenient and secure banking products and services. As of December 31, 2023, customer accounts represented 76.1% of our liabilities. The following table sets out the composition of our customer deposit portfolio as of the dates specified:

	As of December 31,					
	2021		2022		2023	
	<i>(MNT millions)</i>	<i>%</i>	<i>(MNT millions)</i>	<i>%</i>	<i>(MNT millions)</i>	<i>%</i>
Corporate and SME:						
Current accounts:						
Domestic	748,329	13.70%	1,211,158	21.09%	1,768,356	22.00%
Foreign	646,382	11.83%	979,108	17.05%	1,657,630	20.63%
Savings accounts:						
Domestic	194,591	3.56%	4,216	0.07%	18,101	0.23%
Foreign	124,797	2.28%	16,418	0.29%	6,363	0.08%
Term deposits:						
Domestic	429,530	7.86%	312,093	5.43%	506,240	6.30%

As of December 31,						
	2021		2022		2023	
	(MNT millions)	%	(MNT millions)	%	(MNT millions)	%
Foreign	154,513	2.83%	220,276	3.84%	453,328	5.64%
Other:						
Domestic	41,972	0.77%	30,802	0.54%	33,034	0.41%
Foreign	9,009	0.16%	9,859	0.17%	122,792	1.53%
Retail:						
Current accounts:						
Domestic	321,828	5.89%	368,763	6.42%	423,040	5.26%
Foreign currencies	86,379	1.58%	199,035	3.47%	193,390	2.41%
Savings accounts:						
Domestic	297,801	5.45%	198,471	3.46%	327,358	4.07%
Foreign	205,240	3.76%	205,857	3.58%	184,071	2.29%
Term deposits:						
Domestic	1,591,454	29.13%	1,291,205	22.48%	1,727,293	21.49%
Foreign	611,717	11.20%	696,036	12.12%	615,638	7.66%
Total	5,463,543	100.00%	5,743,298	100.00%	8,036,634	100.00%

The following table sets forth our funding costs in relation to our corporate and retail deposits as a percentage of our total funding costs as of the dates specified:

As of December 31,			
	2021	2022	2023
Current accounts:			
Domestic	56	—	12,466
Foreign.	2	—	12,974
Time and savings deposits:			
Domestic	196,420	131,191	218,244
Foreign.	22,892	18,027	28,134

As of December 31, 2023, our funding (including MNT8,036.6 billion of customer funds, MNT131.0 billion of due to banks, MNT711.7 billion of repo arrangement and MNT1,410.9 billion of borrowed funds) totaled MNT10,290.2 billion, and increased by MNT2,366.9 billion from MNT7,923.4 billion (including MNT5,743.3 billion of customer funds; MNT263.7 billion of due to banks and MNT1,916.3 billion of borrowed funds) as of December 31, 2022. As of December 31, 2021, our total funding (including MNT5,463.5 billion of customer funds, MNT238.7 billion of due to banks and MNT1,509.4 billion of borrowed funds)) totaled MNT7,211.7 billion.

RISK MANAGEMENT

The main components of our risk management framework, include our risk appetite statement, traffic light assessment, and capital conservation buffer based on risk governance, “Three lines model,” risk capacity, and stress test. In addition, we have implemented control of our capital adequacy by implementing the Basel Committee on Banking Supervision “Internal Capital Adequacy Assessment Process and using it to bank-wide stress test.

An important feature of our risk management framework, includes “Three lines defense” model, in which the roles, plan, and assessment are defined as follows:

The first line	The second line	The third line
Business units and their supporting units who are responsible for business risks within our policy, procedure, and their roles	Units who oversee the risk management of “first line of defense” and control and limit our risk bearing capacity	Units who activities are related to independent internal audit

Credit Risk Management

Credit risk is the expected loss that arises from a borrower failing to meet a contractual obligation. Our risk management aims to maximize the return and profitability by managing the credit impact in line with the prevailing risk environment. We have developed and implemented methods for assessing and reducing the risk of our loan portfolio, successfully introduced a loss-based model for calculating loan impairment in accordance with IFRS. We also have optimized the risk management of our loan portfolio by continuously evaluating non-performing loan ratios, provisions, macroeconomic indicators, forecasts, and credit ratings.

The following table sets forth a comparison of our NPL ratio with the NPL ratio of the Mongolian banking industry as of the dates presented:

	As of December 31,		
	2021	2022	2023
The Issuer	7.6%	6.9%	5.0%
Mongolian banking sector ⁽¹⁾	10.0%	9.2%	7.5%

(1) Based on data published by the Bank of Mongolia.

The following table sets forth our loans in arrears as a percentage of our total loan portfolio as of the dates presented:

	As of December 31,		
	2021	2022	2023
In arrears	8.2%	5.7%	5.7%

The following table sets forth our NPL coverage ratio as of the dates presented:

	As of December 31,		
	2021	2022	2023
NPL coverage ratio	72.5%	96.4%	106.2%

Collateral Policy

According to our collateral policy, collateral is pledged from borrowers and third parties as security for loans, loan equivalent assets and other contingent liabilities. Moreover, we implement a comprehensive collateral policy according to the requirements set by the International Valuation Standard (“IVS”), including asset valuation methodologies (market, cost, and other approaches) and valuation models that depending on collateral types and nature, along with a code of ethics that appraisers must comply with to maintain independence.

Market Risk Management

Market risk is the risk that affects the fair value and future cash flow of financial instruments, arising from movements in market prices. Interest rate, foreign exchange rate, margin trading, investment securities, asset value, or other market movements increase market risk of our open positions. Even with recent high volatility in foreign exchange rates, stock markets, and commodity prices, we mitigated potential losses by implementing sound market risk management. In 2023, we successfully met open position requirements set by the Bank of Mongolia and fully complied with our risk appetite statement. We calculate foreign exchange rate risk on daily basis using “Value at Risk” measure to prevent from breaching limit set by ALCO. In addition, to managing counterparty and country risk, we set limits based on credit rating and financial statements.

Liquidity Risk Management

Liquidity risk is the risk that arises from difficulty in converting cash and other highly liquid assets to meet its financial obligation. Our liquidity risk management framework is designed to manage liquidity so that short-and medium-term payment obligations could be met under normal or stressed conditions. In 2023, our liquidity was high enough to meet the central bank regulatory requirements and our risk appetite statement. We calculate liquidity ratios on a daily basis to promote the short-term resilience of our liquidity risk. In addition, we assess potential liquidity risk and perform stress tests to optimize decision making. To further improve our liquidity risk management and prevent potential losses, we have developed and complied with internal policies, procedures, methodologies, and have adopted a liquidity contingency plan in accordance with international standards.

Capital Adequacy

The Bank of Mongolia monitors compliance with the capital requirements of all Mongolian banks, including us. The Bank of Mongolia has established a minimum capital adequacy ratio for Mongolian banks, which currently exceeds guidelines recommended under Basel Capital Accord Standards. As of December 31, 2023, the minimum capital adequacy ratio and Tier I core capital ratio for Mongolian banks set by the Bank of Mongolia was 12% and 13% (including 4% buffer), respectively, based on total equity and total assets as adjusted for their risk. We comply and have at all times complied with the prevailing mandatory capital adequacy ratios set by the Bank of Mongolia. In addition to the ratios required by the Bank of Mongolia to determine capital adequacy, the Internal Capital adequacy Assessment Methodology (ICAAP) is used as a model for the recommendations of the Basel Committee on Banking Supervision.

The following table sets forth our capital adequacy ratio as of the dates presented:

	As of December 31,		
	2021	2022	2023
Capital adequacy ratio	15.4%	17.9%	15.9%
Tier I capital adequacy ratio	15.0%	17.9%	15.9%

On March 5, 2007, the Bank of Mongolia adopted, as amended from time to time, the Regulation on Calculating and Controlling Reserve Requirements, pursuant to which commercial banks must deposit at least 50.0% of their required Tugrik and foreign currency reserves with the Bank of Mongolia on a daily basis. Under the regulation, the Bank of Mongolia may pay interest on such deposits at a rate equal to 50.0% of the Bank of Mongolia’s overnight deposit rate for Tugriks. In addition, commercial banks were allowed to offset up to 50.0% of their foreign currency reserve requirements with surpluses of Tugrik reserves. These requirements came in force on December 30, 2014. On December 6, 2019, the Bank of Mongolia adopted the revised Regulation on Setting, Calculating, and Controlling Reserve Requirements. On March 11, 2020, the Monetary Policy Committee of the Bank of Mongolia set the reserve requirements for Tugrik and foreign currency deposits at 8.5% and 15%, respectively. As of February 9, 2022, the reserve requirements for Tugrik and foreign currency deposits are at 8% and 18%, respectively.

The Bank of Mongolia amended its “Regulation on Setting and Monitoring Prudential Ratios of Bank Operations” in 2015. According to the amendment, effective January 1, 2015, a new asset class, “other foreign currency loans issued to unhedged borrowers,” was added to risk-weighted assets, which carry a risk weight of 120.0%. As of December 31, 2023, our CAR was 15.9%. On May 23, 2019, the Bank of Mongolia further amended its “Regulation on Setting and Monitoring Prudential Ratios of Bank Operations” to increase the risk weight assigned to foreign currency loans from 120.0% to 150.0%.

Operational Risk Management

We maintain an appropriate level of risk due to internal operations, information technology abnormalities, adverse environmental impacts and human factors. To effectively manage and control the operational risks of the banking units, we use the risk control self-assessment methodology to identify and mitigate potential threats to the operations of the units, which requires each of our departments to identify, register and evaluate the risks relating to the operational risk and take proper mitigation measures.

Our board reviews effectiveness of our internal control system regularly through our audit committee and risk management committee. Our audit committee reviews the effectiveness of our internal control system and reviews reports from our internal audit division and management. Our internal audit division coordinates with our general audit department, information technology audit department, remote audit and quality audit department and data analysis unit to conduct reviews of the compliance of our internal control implementation with the risk management policies. Our general audit department implements the function of auditing and providing consulting services for bank governance, risk management, policy units, business units, operations, branches, settlement centers and projects implemented in the Bank. Our information technology audit department implements the function of auditing and providing consulting services covering information security, information technology governance and operations of the Bank. Our remote audit and quality audit department implements the function of conducting remote audits of bank criteria, credit, accounting, and procurement activities, as well as internal quality assurance of IAF. Our data analysis unit implements the function of providing support for the audit engagements of departments of our internal audit division by performing necessary data processing and data analysis, automating and developing audit activities. Our internal audit division continuously conducts audit engagements in each of the above-mentioned directions, conducts quarterly risk assessment of bank units and operations and performs audit engagements by updating the audit plan according to our audit principles, depending on the results of the risk assessment. Therefore, the number of annual audits is not constant and varies depending on the risk assessment.

Information Security Risk

Similar to other banks and financial institutions, we rely on proper functioning of information technology systems for our business operations. We have established a comprehensive information security organizational structure, which covers the security management for physical conditions, staff, system construction, system operation and maintenance. We hired professionals to oversee the Group’s information security and established a series of information security management measures covering various areas in order to prevent any unauthorized online intrusion, attack, data leakage or third-party tampering on our information system. In 2023, along with annual audits regarding ISO27001 Internationally Recognized Information Security Certificate, GDPR (European Union Personal Data Protection Law) audit to ensure the implementation of Personal Data Protection Law and Payment Card Security PCI-DSS standard audit, we have become a member organization of the PCI Security Standards Council. As a result, we will be involved in the process of developing and setting security standards and will work with more than 800 of the world’s leading organizations to contribute to the protection, improvement, and development of the security of international payments. Within the framework of the objective to establish a world-standard benchmark information security structure, we comply with ISO27001, a global information security standard, Payment Card Industry Data Security Standard (PCIDSS) and the General Data Protection Regulation (GDPR) of the European Union and implement these standards to our operation.

We implemented strict access control to ensure that only authorized personnel have access to sensitive systems and data. This includes user authentication mechanisms such as passwords, biometrics, and multi-factor authentication. We also implemented Intrusion Detection and Prevention Systems (“IDPS”) that used to monitor network traffic for suspicious activity and to automatically respond to potential security threats. We have a cyber security team who employ continuous security monitoring to detect and respond to security incidents in real-time, helping to minimize the impact of cybersecurity threats. Furthermore, we conduct regular security audits and assessments to identify vulnerabilities and ensure compliance with industry regulations and best practices.

In addition, Thales eSecurity, an international information security audit service provider company, regularly assesses the vulnerability of our banking system to ensure that the system is fully compliant. The requirements of the Security Operations Maturity Model (SOMM) are fully met to protect against external cyber-attacks on the banking system and we are actively working to establish a Cyber Security Management Center. Moreover, we are sharing experiences by joining the call for mutual trust in cyber security in Paris, the largest international cooperation project on cyber security, which brings together more than 1,100 organizations from around the world. Finally, we, in cooperation with the Mongolian Banking Association, the National Police Agency, and the Bank of Mongolia, launched the campaign “Do not give fraudsters a chance” in 2020 and 2021 in order to prevent fraud in the social environment, next campaign was “Unsend” campaign in 2022, which is included warning messages on preventing social fraud was sent through social networks, television, radio, and media channels.

Compliance and Anti-Money Laundering Policy and Procedures

The Compliance Division is responsible for managing and controlling general compliance issues and anti-money laundering and combating terrorist financing activities within the policy framework. In order to ensure protection of our customers, shareholders and employees from possible risk exposures in constantly changing socio-economic and market conditions, legal environment, and international situation, we adopted a comprehensive risk management policy which includes compliance policy, regulation on preventing and combating corruption, anti-fraud policy, breach of conduct reporting policy and whistleblowing. Our board has approved the corporate governance code that incorporates code of ethics with clearly defined principles and standards of conduct and ethical behavior mandated for all employees. This practice enhances the role and responsibilities of the employees in all units of the Bank and facilitates maintaining high quality and effective operations on a constant basis. Adequate risk management and efficient system for anti-money laundering and combating terrorist financing are essential for the stable and long-term development of the Bank. We conducted compliance activities in accordance with the international standards and law and Mongolian law, requirements and recommendations issued by the regulatory organizations, balancing risk and return. Our Board of Directors and management are well aware and strengthen the importance of compliance activities, define and monitor the relevant policies. The Mongolia’s Law on Combating Money Laundering and Terrorism Financing was approved in 2006. The Bank of Mongolia approved the relevant regulations on anti-money laundering and combating terrorist financing, implementation of which is obligatory for banks. We strictly comply and implement these laws and regulations. We conduct identification of customers and ultimate owners, transaction control, reporting and whistleblowing in accordance with the relevant regulations and standards. We successfully organize classroom and distance trainings, and a wide-range of forums on issues related to risk management and compliance every year.

COMPETITION

As of December 31, 2023, the Mongolian financial sector comprised 12 commercial banks, 11 of which were privately owned and one state-owned. Pursuant to the Law of Mongolia on Development Bank, a government-owned policy-oriented, statutory financial institution named Development Bank of Mongolia LLC was established in March 2011. There were also approximately 532 licensed non-banking financial institutions, 285 saving and credit cooperatives, 319 general insurance companies, one life insurance company and one reinsurance company. Our principal competitors include commercial banks and non-bank financial institutions in Mongolia.

SUSTAINABLE DEVELOPMENT POLICY

We have been pursuing sustainable development policy since 2019 with commitments to sustainable development goals to cover all of our banking and finance activities. As part of our sustainable development policy, we aim to implement the economic changes needed to achieve climate balance through our products and services and make our internal operations more environmentally and socially friendly. The main strategic direction of the strategy is to conduct sustainable business activities, focus on social and environmental issues, create sustainable and satisfying jobs, and align the loan portfolio with the objectives of keeping global warming at 2 degrees Celsius and financing a low-carbon, climate-resilient economy. We became a member of the UNEP FI Banking Committee in 2017 as one of the 30 signatory members who created Principles for Responsible Banking.

PROPERTY

We own or lease premises where our head office and branches are located. We lease office premises, ATM space, garages and warehouse. In general, our leased premises have a lease term of three years. However, we generally acquire premises where possible and especially in locations where we believe that the value of real estate is likely to appreciate in value and that rental costs are likely to increase. As of December 31, 2023, 104 of our premises were leased and 19 premises were owned. The carrying amount of our owned premises was MNT99,530.6 million (US\$29.2 million) as of December 31, 2023.

INFORMATION TECHNOLOGY

We view IT as an integral part of our operations and are committed to investing in our IT infrastructure to support our existing operations and growth. The core element of our IT infrastructure is our software system, which is located at our head office and networked with all of our branches. This system facilitates full-scale operational and analytical support for wire transfers and cash settlements, credit decisions, lending activities, bank deposit maintenance, transactions in foreign currencies and remote account management services such as internet banking and telephone banking. implemented and compliant with Cobit5 IT Governance Frame work, ISMS and PCI-DSS international standards for it's all information technology procedures and activities. And all those procedures and activities are deeply assessed and audited based on above international standards by external auditor and internal risk, audit and quality teams.

We utilize the latest technology and IT solutions to ensure with international standards uninterrupted and reliable operation of our IT systems, improves staff productivity and provide products and services that meet the growing customer demands and expectations.

To minimize system downtime and to safeguard information in the event of a technical or operational failure, we maintain an off-site IT back-up recovery center, which is updated in real time and is located at Darkhan City. This back-up facility contains a substantially complete duplicate of all of our core IT systems and can provide emergency back-up data if the operation at our main data center is disrupted or fails. We conduct IT disaster recovery drills semi-annually to enhance the effectiveness of our back-up systems.

INSURANCE

We contribute to mandatory Government pension schemes, such as social security and health insurance funds, as required by Mongolian law. We have a cyber insurance policy which helps protect us against financial losses and liabilities resulting from data breaches, cyberattacks, and other security incidents. We also maintain vehicle insurance, professional indemnity insurance, driver's liability insurance, health and accident insurance agreement, property insurance agreement, bankers blanket bond agreement and equipment insurance agreement. We believe that we maintain adequate insurance coverage for our operations and that the scope of the coverage is in line with industry norms. We believe that we maintain adequate insurance coverage for our operations and that the scope of the coverage is in line with industry norms.

INTELLECTUAL PROPERTY

We registered the logo of “Golomt” and “GOLOMT” in English and Mongolian as our trademarks with the intellectual property agency of Mongolia in March 2020. As of December 31, 2023, we held 13 registered trademarks, four registered copyrights and the domain name “www.golomtbank.com” in Mongolia.

EMPLOYEES

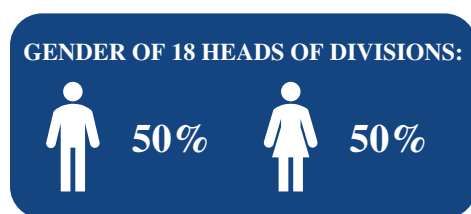
As of December 31, 2023, we had a total of 2,494 full-time employees. The table below sets forth the number of our employees by function as of December 31, 2023:

Function/Division	Number of Employees
Board of directors’ office	4
Senior directors	20
Corporate banking division	40
Business process management division.	137
Operation division	188
SME division	14
Internal audit division.	25
Digital banking division	62
Data management department	17
Administration division.	84
Credit division	137
Retail banking division.	112
Marketing and PR division	21
IT division.	131
Treasury management division.	28
International banking division	16
Branch and settlement center.	1302
Financial management division	41
HR management division	33
Customer experience division	8
Risk management division.	34
Legal department	13
Data analysis unit.	4
Compliance Department	12
Total	2,494

We screen and recruit our employees from accredited universities and through accredited portals. We provide both academic training and on-the-job training to our employees, including with respect to banking operations, financial risk and compliance. We cooperate with universities, colleges and institutions in Mongolia, as well as foreign experts, to enhance the knowledge and skills of our employees. We review our remuneration policies on a regular basis and provide our employees with performance-based bonuses in addition to their base salaries.

We have maintained good working relationships with our employees and have not encountered any difficulties in recruiting and retaining experienced staff. Our employees are not members of any trade unions. As of the date of this Offering Memorandum, we have not experienced any and do not expect to experience any strikes or disruptions due to labor disputes.

In 2019, we established our Sustainable Development Committee and Gender Equality Committee to advance our ESG-focused activities. The following diagram shows the gender composition of our 18 heads of divisions:



LEGAL PROCEEDINGS

We are, from time to time, the subject of legal proceedings and other investigations which arise in the ordinary course of business. We are not involved in and do not believe that there are any other pending or threatened actions, suits or proceedings against or affecting us which, if determined adversely to us, could individually or in the aggregate have a material adverse effect on our financial condition or results of operations or might be material in the context of the Notes.

SUSTAINABLE BANKING

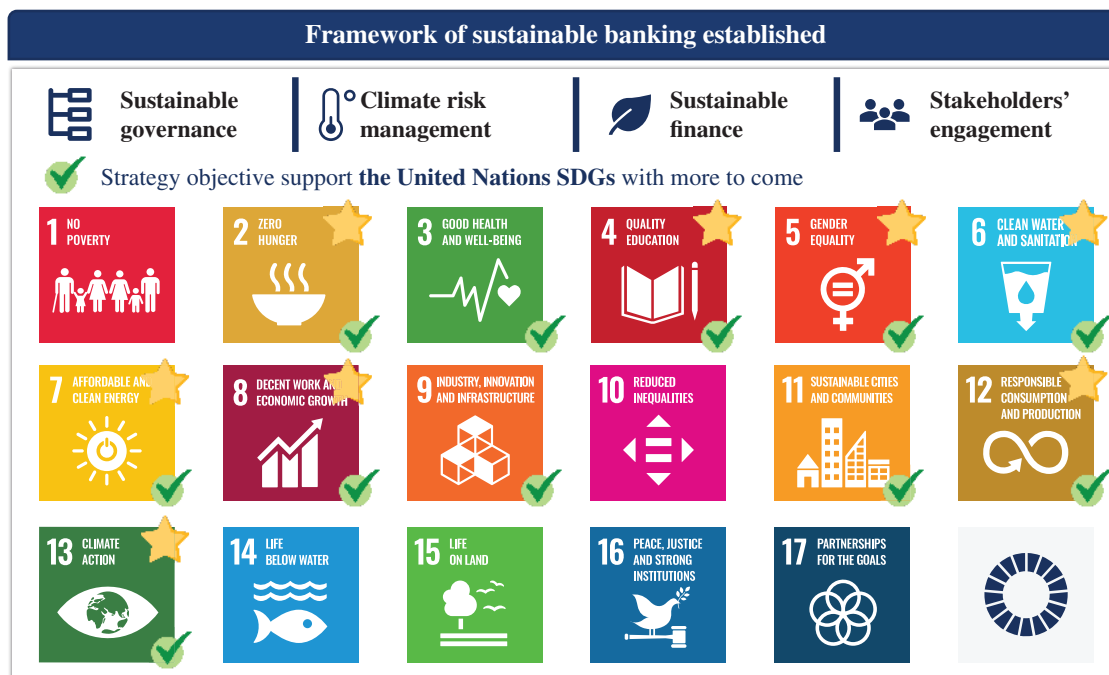
We have identified sustainable development as one of our key strategic directions and developed short term sustainable development strategies.

SUSTAINABLE DEVELOPMENT INITIATIVES

We have identified the following four areas as key pillars of our sustainable development initiatives:

Key Pillars	Outline
Sustainable Governance.	We plan to develop sustainability driven governance across the Bank including sustainability supportive management, reduction of own environmental and social footprints of the Bank, sustainability capacity building of all employees and develop sustainability reports aligned with the international standards.
Climate Risk Management.	We plan to enhance our environmental and social risk management system and develop climate risk management in alignment with our commitment to reduce climate change risk and contribute to the international and national goals of reducing the greenhouse gas emissions.
Sustainable Finance	We plan to contribute to the achievement of SDGs by expanding green investments and loans and by incentivizing effective cooperation with international and multilateral DFIs to increase our sustainable funding. We aim to increase our green loan portfolio by launching the following green products: • green business loan • green housing loan • eco car loan • women business loan, etc.
Stakeholders Engagement	We plan to closely collaborate with key stakeholders of sustainable development implementation in the country including our clients, regulators, financial sector associations, academies, and development finance institutions. Our main directions of stakeholders' engagement incorporate the implementation areas of nationally determined contributions ("NDC"), sustainable development goals and climate change reduction goals.

Our strategy objectives support 11 of 17 sustainable development goals of United Nations as indicated in the following diagram as well as the Paris Agreement’s goal of transitioning to net zero emissions by 2050.



In particular,

- We have started releasing sustainable development goal reports since 2020.
- We released our progress report 2022 with the EY limited assurance under UNEP FI Principles for Responsible Banking.
- We become a signatory bank of Partnership for Carbon Accounting Financials (“PCAF”). We have started calculating our financed CO2 emission according to the PCAF methodology.
- We have been organizing customized training and workshops about the environmental, social and governance (“ESG”) and sustainable projects for our customers.
- We have supported large national infrastructure projects such as New UB International Airport, Millennium Challenge Account (largest water supply project in Mongolia) and Oyu Tolgoi.

SUSTAINABLE DEVELOPMENT TIMELINE

The following table sets out our sustainable development timeline:

Year	Sustainable development timeline
2015-2016	Established sustainable financing policy of the Bank. Introduced an environmental and social checklist for loans in a principal amount of MNT50 million or above.
2017-2018	Recognized as “Sustainable Finance Leader Banker 2016” by The Bank of Mongolia, FRC and Mongolian Sustainable Finance Association. Established gender policy of the Bank, a green finance capacity building program with international finance corporation and joined United Nations Environment Program Finance Initiative (“UNEP FI”) “Principles for Responsible Banking” (“PRB”) working group

Year	Sustainable development timeline
2019	Commenced classifying our green loans according to the green taxonomy (“Green Taxonomy”) as approved by Bank of Mongolia, which is a classification and criterion for green activities that are environmentally and socially friendly and banks use the Green Taxonomy to identify green loans and projects. Commenced reporting our green loan portfolio to Bank of Mongolia in accordance with the Green Taxonomy.
2020	Officially joined the UNEP FI PRBs and the Collective Commitment to Climate Action which was adopted by some signatories to PRBs as additional climate commitment. Established sustainable development policy, enhanced credit environmental and social risk methodology, development sustainable development capacity building program for employees. Started publishing sustainable development annual report and were recognized as “Sustainable Featured Bank” by Mongolian Sustainable Finance Association, the Bank of Mongolia and International Finance Corporation.
2021	Developed our medium-term sustainable development strategy for 2022 to 2025; Established gender equality committee and sustainable development committee; Conducted impact analysis of loan portfolio in accordance with the impact assessment tool developed by UNEP FI; Launched loan products for women entrepreneurs; Started publishing PRB annual report; Recognized as “Sustainable Finance Leader Bank” by The Bank of Mongolia, FRC and Mongolian Sustainable Finance Association.
2022-2023	Established the Sustainable Finance Department; Introduced sustainable and green loan products; Measured CO2 emission and water consumption of loan portfolio and calculated baseline data on portfolio; Implemented internal procedures for environmental and social risk assessment; Awarded “Featured Sustainable Finance Bank” by the Bank of Mongolia; Joined partnerships for carbon accounting financials (“PCAF”). Initiated the computation and disclosure of financed emissions and assured our UNPRB Self-assessment report. Recognized as “Gender Leadership Bank 2023” by The Bank of Mongolia, FRC and Mongolian Sustainable Finance Association.

We focus on financing electricity and heat loss in buildings. We use low-power LED lights and achieve certain results by installing renewable energy equipment in one of our office buildings:

- The solar panel has tested at third office and 5,405 kwt renewable energy has been produced by Q4 2022 which reduced total energy consumption by 4% from preceding year.
- In 2022, the number of total recyclable waster has increased by 120 kg from year end of 2021.

LOAN PORTFOLIO

The following set forth our green loan portfolio.



Source: market share information based on Bank of Mongolia report



GREEN LOAN PRODUCTS

We offer green loan products to customers which are designed to encourage customers to adopt sustainable practices by providing favorable interest rates and terms for environmentally friendly activities. We provide the following loan products:

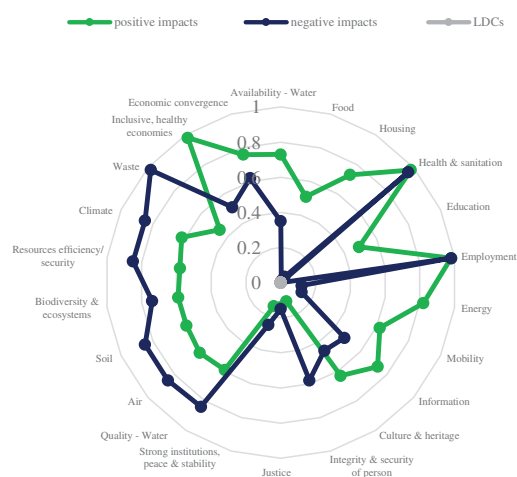
- Sustainable & green business loans: we offer business loans in principal amount of up to MNT10 billion with tenor of up to 84 months to individuals, SMEs and corporates who have introduced environmental, social and governance sustainability in their business activities, or who aim to be environmental friendly to serve their needs for working capital and support their business operations.
- Electric & eco vehicle loan: we offer electric and eco vehicle loan products in principal amount of up to MNT10 billion and with tenor of up to 30 months to customers to meet their needs to purchase second hand, new electric and hybrid cars for personal and business use.
- Green housing loan: we offer green housing loan in principal amount of up to MNT300 million and with tenor of up to 240 months to finance sustainable houses which meet EDGE certificate, energy efficiency rate of A++, A+, A and B categories and other requirements.

- Women business loan: we offer women business loan in principal amount of up to MNT100 million and with tenor of up to 36 months to finance the working capital of SMEs and women entrepreneurs for purchasing inventory, increasing business income and improving quality of products and services.
- Green micro loan and leasing: we offer green micro loan and leasing products in principal amount of up to MNT20 million and with tenor of up to 30 months to finance the loans and leasing of electronic devices, equipment and products that are certified by international standard and certificates.

GREEN FINANCE



Impact Associations – Corporate Banking



Target	2030	2050
Climate change mitigation	30%	50%
Water Availability	5%	10%

In alignment with Principal #2 and CCCA commitment, in order to assess and identify the Bank's significant positive and negative impacts on environment and society, we have successfully conducted an impact analysis using UNEP FI's portfolio impact analysis tools for banks. The significant impacts are approved and supported by our Sustainable Development Committee. Based on the analysis, we identified our most significant impacts as below.

- Climate: The proportion of the portfolio mitigating the negative effects on climate is 47%, and fighting against climate change is a priority topic of the country, as Mongolia is one of the 20 countries that are most vulnerable to the climate change.
- Availability of water: the proportion of the portfolio affecting water is 32%. The availability and quality of the water is an emerging high risk for Mongolia, as the recent study shows that the country will face water scarcity by 2030.
- We aim to support and finance the negative impacts reduction projects in climate and water availability of the carbon-intensive industries such as construction materials, heat production, power generation, land and transportation. We plan to support CO2 reduction in carbon intensive sectors for enhancing our positive contribution to our own Sustainable Development Strategy, NDC and SDG.

SUSTAINABLE DEVELOPMENT IMPACT

We are a leading commercial bank in Mongolia, with over 1 million retail, corporate, and SME clients in the country with 3.4 million population. We serve a high proportion of the urban working population in Mongolia, according to the Business Council of Mongolia. Since we were founded in 1995, we have contributed to Mongolia's development by introducing innovative products and services that have accelerated the development of the Mongolian financial sector and expanded access to banking services for the Mongolian people.

As part of our support of financial inclusion throughout Mongolia, our activities are guided by our Sustainable Development Policy, which is based on three goals: (1) Promote sustainable business, (2) Focus on social and environmental issues, and (3) Create satisfactory job retention. As part of our sustainable strategy, we are committed to contributing to global and national sustainable development goals and strengthening support of our customers on their green and sustainable projects.

We plan to use the net proceeds from this offering to finance our ordinary business operations including lending operations. We intend to pursue our corporate strategy and impact intentions, including the pursuit of incremental positive impacts, reducing negative impacts, and withholding policies and procedures to mitigate environmental and social risks.

DEVELOPMENT OUTPUTS AND OUTCOMES

Positive Impacts: We aim to achieve positive impact by augmenting our green loan portfolio, promoting female employment and leadership, and supporting employment and knowledge development and will monitor and report our progress against these initiatives.

Green Loan Portfolio

- We aim to increase our green loan portfolio to comprise 10% of the total loan portfolio by 2030, from a baseline of 3.9% in 2023. The green loan portfolio is comprised of the below components:
 - o Renewable energy
 - o Low pollution energy
 - o Energy efficiency
 - o Green buildings
 - o Pollution prevention and control
 - o Sustainable agriculture, land use, forestry and eco-tourism
 - o Sustainable water and waste management
 - o Clean transport
- By growing our green loan portfolio, we intend to focus on the below development outputs and outcomes, against which it expects to monitor and report:
 - o Through financing *renewable energy, low pollution energy, energy efficiency, green buildings* (defined as buildings that adhere to the International EDGE standard), *pollution prevention and control*, and *clean transport*, we will aim to reduce energy consumption and greenhouse gas of the buildings financed.
 - o Through financing *sustainable agriculture, land use, forestry and eco-tourism*, we aim to lend to an increased number of smallholder farmers, increase the overall agricultural yield, and expand the proportion of land under sustainable management.
 - o Through financing *sustainable water and waste management* projects, we aim to decrease the water consumption of the loan portfolio by 5% by 2030 and 10% by 2050 from 2022 baseline by focusing on particularly water-intensive loans, and to decrease the waste generated by our loan portfolio.

Operations

In addition to the positive impacts that we aim to achieve through our loan portfolio, we aim to achieve positive impact as part of our operations, including:

- Increasing access to financial services in Mongolia by:
 - o Promoting digital banking services, and for those without access to smartphones or technology, ensuring access to one bank branch at the provincial level; and
 - o Extending financial services and products to new customer bases including herders, students and juniors, female entrepreneurs, and micro, small, and medium-sized enterprises.
- Promoting female employment and leadership by:
 - o Increasing the female representation on the executive management team from a baseline of 23% in 2022;
 - o Maintaining a high proportion of female representation in total employment from a baseline of 65% in 2022 in and management from a baseline of 77% in 2022; and
 - o Convening the Bank's Gender Equality Committee on a quarterly basis, to implement initiatives to expand access to financial services, empower women to generate income and establish businesses, and advocate for gender equality.
- Supporting knowledge development and employment in Mongolia by:
 - o Continuing to provide annual learning to our employees, from a baseline of 112,588 hours of training provided and 68.1 learning hours per employee in 2022; and
 - o Supporting direct employment by continuing to hire new employees, aiming to increase the number of employees hired annually from a baseline of 600 in 2022.

REDUCING NEGATIVE IMPACTS

As part of our goals to achieve positive outputs and outcomes in Mongolia, we aim to reduce the negative impacts of our portfolio and operations.

- Through participation in the Partnership for Carbon Accounting Financials and we expect to reduce greenhouse gas ("GHG") emissions by 30% by 2030 and 50% by 2050 for total emissions from 2023 levels, including:
 - o Reducing Scope 1 emissions from a baseline of 30,192 tons of CO2 equivalent ("tCO2e") in 2023;
 - o Reducing Scope 2 emissions from a baseline of 882,307 tCO2e in 2023;
 - o Reducing Scope 3 emissions, including upstream and financed emissions of our high-impact loan portfolio, which includes manufacturing, mining, agriculture, infrastructure, land transportation, construction and buildings, from a baseline of 2,749,816 tCO2e in 2023; and
 - o Increasing the proportion of GHG emissions offset by planting trees, from a baseline of 2.6% offset in 2022.

- In addition to reducing GHG emissions, we aim to make other improvements to operational sustainability, including:
 - o Reducing electricity consumption from a baseline of 1,379,706 kilowatts in 2022;
 - o Reducing water consumed from a baseline of 7,349m³ in 2022; and
 - o Limiting material waste to reduce the total amount of paper waste from a baseline of 103.7 kilograms in 2022 and the total amount of plastic waste from a baseline of 221.9 kilograms in 2022.

POLICIES AND PROCEDURES TO MITIGATE ENVIRONMENTAL AND SOCIAL RISKS

To mitigate environmental and social risks, we apply our Sustainable Development Policy and strive to adhere to applicable international standards.

- We apply our Sustainable Development Policy to incorporate environmental and social responsibility and risk management into our internal operations, credit operations, marketing efforts, training and development initiatives and human resource practices.
 - o Our Sustainable Development Committee convenes on a quarterly basis to oversee and manage the implementation of our sustainable development strategy, ensure alignment with the Paris Agreement, and enhances supervision and reporting.
- In 2022, we approved and implemented our “Internal Procedures for Environmental and Social Risk Assessment,” which made procedural improvements to identify unacceptably high risks within the E&S framework, developed specialized assessment models for over 400 economic sectors and introduced a green loan assessment model that places significant emphasis on E&S risk assessment.
- Moreover, we became a member of the “Partnership for Carbon Accounting Financials,” an international standards organization that focuses on calculating GHG emissions and is incorporating this methodology into our loan assessments.
- Additionally, we have in place body of internal policies and procedures related to compliance and internal control, such as our Anti-Bribery Policy Statement, Anti-Fraud Policy and Anti-Money Laundering and Terrorist Financing Policy.

The anticipated impact of the development outputs above are anticipated to contribute to the SDGs,¹ to support the following targets.

- By supporting smallholder farmers, we expect to contribute to ***SDG Target 2.3: Double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers.*** In Mongolia, the cereal yield is 1,113 kilograms per hectare, compared to the average of peers in the top quartile of this metric of 17,694 kilograms per hectare.²
- By increasing both the total and per employee number of hours of training provided to employees, we expect to contribute to ***SDG Target 4.3: By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.*** In Mongolia, 66% of firms offer formal training.³

¹ SDG Targets are shortened for the sake of this analysis. For full targets, see <https://sdgs.un.org/goals>. Peer countries are defined as the 144 countries eligible to borrow from the World Bank Group. Most recent data available used for analysis.

² As of 2022. Source: Food and Agriculture Organization. Data retrieved from World Bank: Cereal Yield as of April 2, 2024 (n=132).

³ As of 2019. Source: World Bank Enterprise Surveys. Data retrieved from World Bank: Firms offering formal training as of April 2, 2024 (% of firms).

- By aiming to increase the female representation in both management positions and total employment, we expect to contribute to ***SDG Target 5.5: Ensure women's full and effective participation and equal opportunities for leadership.*** In Mongolia, on average, women represent 41.9% of management positions, which is below the average for the top quartile of peer countries of 56.5%.⁴
- By targeting to reduce water consumption, we expect to contribute to ***SDG Target 6.4: Substantially increase water-use efficiency and ensure sustainable withdrawals and supply of freshwater.*** In Mongolia, water-use efficiency is USD \$22.9/m³, compared to the average of peers in the top quartile of this metric of USD \$69.8/m³.⁵
- By reducing energy consumption, we expect to contribute to ***SDG Target 7.3: Double the global rate of improvement in energy efficiency.*** In Mongolia, the energy intensity level of primary energy is 7.0 megajoules per constant 2017 purchasing power parity GDP, compared to the peer median of 4.3.⁶
- By increasing the number of new hires, we expect to contribute to ***SDG Target 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.*** In Mongolia, the unemployment rate is 6.2%, compared to the average of peers in the top quartile of this distribution of 1.9%.⁷
- By increasing our loan portfolio, we expect to contribute to ***SDG Target 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.*** In Mongolia, 99.2% of individuals above the age of 15 years had an account at a financial institution.⁸
- By reducing paper and plastic consumption, we expect to contribute to ***SDG Target 12.2: By 2030, achieve the sustainable management and efficient use of natural resources.*** In Mongolia, the municipal solid waste generated per annum per capita was 1.0 tons, compared to the peer median of 0.3 tons.⁹
- By setting targets for reduction of Scope 1, 2, and 3 emissions, we expect to contribute to ***SDG Target 13.2: Integrate climate change measures into national policies, strategies and planning.*** In Mongolia, the CO₂ emissions totalled 6.4 metric tons per capita in 2020, compared to the median for peer countries of 1.4 metric tons per capita.¹⁰

⁴ As of 2022. Source: International Labour Organization. Data retrieved from World Bank: Female share of employment in senior and mid-level management as of April 2, 2024 (%) (n=102).

⁵ As of 2021. Source: Food and Agriculture Organisation of United Nations (FAO). Data retrieved from UN Statistics as of April 2, 2024 (n=123).

⁶ As of 2021. Source: International Energy Agency. Data retrieved from UN Statistics as of April 2, 2024 (n=131).

⁷ As of 2022. Source: International Labour Organization. Data retrieved from World Bank Data as of April 2, 2024 (n=132).

⁸ As of 2021. Source: Global Findex Database. Data retrieved from World Bank Data as of April 2, 2024 (n=115).

⁹ As of 2023. Source: Whatawaste Database (n=144).

¹⁰ As of 2020. Source: Climate Watch. Data retrieved from World Bank Data as of April 2, 2024 (n=143).

DEVELOPMENT IMPACT REPORTING TABLE

To increase transparency around our progress against our development intentions, we expect to report our realized values on the metrics below through our annual Sustainability Report published on our website.

Development outputs and outcomes¹¹

Metric	Baseline	Baseline Year	Target	Target Year
Green Loan Portfolio — Financing (SDG 8: Decent Work and Economic Growth)				
Green loan proportion of total portfolio (%)	3.9	2023	10	2030
Renewable Energy	Targets not available but realized values to be reported			
Low Pollution Energy	Targets not available but realized values to be reported			
Energy Efficiency	Targets not available but realized values to be reported			
Green Buildings	Targets not available but realized values to be reported			
Pollution Prevention and Control	Targets not available but realized values to be reported			
Sustainable Agriculture, land use, forestry and eco-tourism	Targets not available but realized values to be reported			
Sustainable water and waste management	Targets not available but realized values to be reported			
Clean Transport	Targets not available but realized values to be reported			
Green Loan Portfolio — Development Outputs and Outcomes (SDG 2: Zero Hunger; SDG 8: Decent Work and Economic Growth; SDG 12: Responsible Consumption and Production)				
Green Buildings				
GHG Emissions for green buildings financed (metric tons)	Targets not available but realized values to be reported			
Sustainable Agriculture				
Smallholder farmers ¹² served (#)	Targets not available but realized values to be reported			
Proportion of land under sustainable management (%)	Targets not available but realized values to be reported			
Total waste generated (metric tons)	Targets not available but realized values to be reported			
Training provided to entrepreneurs on ESG topics (hours)	Targets not available but realized values to be reported			
Access to Financial Services (SDG 8: Decent Work and Economic Growth)				
Customers gaining access to digital banking services (#)	Targets not available but realized values to be reported			
MSME, junior customers, female entrepreneurs served (#)	Targets not available but realized values to be reported			
Customers with 2 or more active financial products from Bank ¹³ (#)	Targets not available but realized values to be reported			

¹¹ Where no target value or target year is provided, hawse have not established a target but has committed to ongoing annual reporting on this metric. We also expect to report annually on the metrics where a target is provided.

¹² Smallholder farmers are defined as pastoralists, farmers, forest keepers, and fishers who manage areas from less than one hectare to 10 hectares by the Food and Agriculture Organization.

¹³ From different categories of financial products.

Development outputs and outcomes¹¹

Metric	Baseline	Baseline Year	Target	Target Year
Female Employment and Leadership (SDG 5: Gender Equality)				
Female representation in management (%)	77	2022	Targets not available but realized values to be reported	
Female representation in executive management team (%)	23	2022	Targets not available but realized values to be reported	
Female representation in total employment (%)	65	2022	Targets not available but realized values to be reported	
Knowledge Development and Employment (SDG 4: Quality Education)				
Learning provided to employees (total hours)	112,588	2022	Targets not available but realized values to be reported	
Learning hours per employee (hours)	68.1	2022	Targets not available but realized values to be reported	
New employees hired (# of employees)	600	2022	Targets not available but realized values to be reported	
GHG Emissions (SDG 13: Climate Action)				
GHG emissions Reduction ¹⁴	3,662,315	2023	2,563,621 ¹⁵ 1,831,158 ¹⁶	2030 2050
Scope 1 emissions (tCO2e)	30,192	2023	Targets not available but realized values to be reported	
Scope 2 emissions (tCO2e)	882,307	2023	Targets not available but realized values to be reported	
Scope 3 upstream emissions (tCO2e).	1,142,789	2023	Targets not available but realized values to be reported	
Scope 3 financed emissions, category 15 (tCO2e) . . .	1,607,027	2023	Targets not available but realized values to be reported	
Proportion of GHG emissions offset by planting trees (%)	2.6	2022	Targets not available but realized values to be reported	

¹⁴ Reduction targets represent 30% reduction by 2030 and 50% reduction by 2050, covering Scope 1, 2 and 3 (upstream and category 15 financed emissions).

¹⁵ Represents a 30% reduction.

¹⁶ Represents a 50% reduction.

Development outputs and outcomes¹¹

Metric	Baseline	Baseline Year	Target	Target Year
Operational Sustainability (SDG 6: Clean Water and Sanitation, SDG 7: Clean and Affordable Energy; SDG 12: Responsible Consumption and Production; 13: Climate Action)				
Electricity consumed (kilowatts)	1,379,706	2022	<i>Targets not available but realized values to be reported</i>	
Water consumed (m3)	7,349	2022	<i>Targets not available but realized values to be reported</i>	
Paper waste (kilograms)	103.7	2022	<i>Targets not available but realized values to be reported</i>	
Waste transported for recycling (units).	221.9	2022	<i>Targets not available but realized values to be reported</i>	

DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

As of the date of this Offering Memorandum, our Board consists of the following individuals:

Name	Age	Title
Mrs. Munkhtsetseg Chultem	53	Chairperson
Mr. Unenbat Jigjid	61	Member
Mr. Munkhtur Dagva.	48	Member
Mr. Ganjooloo Ochirpurev.	47	Member
Mr. James Bernard Dwyer.	80	Independent Member
Mr. Alexander Picker	61	Independent Member
Mr. Robert W. van Zwieten	62	Independent Member
Mr. Hans Holzhacker	70	Independent Member

Mrs. Munkhtsetseg Chultem

Mrs. Munkhtsetseg has been Chairperson of the Board since December 2012. She started her career at the Mongolian Stock Exchange in 1996, and continued with consulting, managerial and executive roles at the World Bank, Asia Foundation, and Nepko Publishing Company. She founded Toim Magazine in 2010. Mrs. Munkhtsetseg holds a bachelor's degree in mining electromechanical engineering from the Polytechnic University in Ulaanbaatar, Mongolia and a master's degree in business administration from the Johns Hopkins University. She also completed the leadership development program at Oxford University in 2016 and the executive leadership program at Harvard University in 2015. Mrs. Munkhtsetseg is the wife of our controlling shareholder, Mr. Bayasgalan Danzandorj.

Mr. Unenbat Jigjid

Mr. Unenbat was appointed as an independent member in 2010, re-elected as an independent director in 2013, 2016 and 2018, re-elected as executive Director in 2019, 2020, 2022 and 2023. He started his career at the Bank of Mongolia in 1990 and has extensive experience in banking and finance, working in the field of monetary policy and research. He was the governor of the Bank of Mongolia from 1996 to 2000. He was the executive director of the Corporate Governance Development Center from 2009 to 2015 and also the executive director of the Mongolian Bankers Association from 2015 till February 2020. He has also been appointed as an Independent non-executive director for MMC (HK listed) and APU (Mongolia listed) since 2010 and 2015 respectively. Mr. Unenbat holds a bachelor's degree in economics and statistics from Moscow State University of Economics and Statistics and a master's degree in international affairs from Columbia University.

Mr. Munkhtur Dagva

Mr. Munkhtur was appointed as a Board member in 2012, and re-elected as a Board member in 2013, 2016, 2018, 2020, 2022 and 2023. He joined the Bank in 1997, and held several positions over different periods, including serving as the director of credit division, director of operations division, and executive vice president and Chief Operating Officer of the Bank. Mr. Munkhtur holds a bachelor's degree in financial management from the National University of Mongolia and a master's degree in business administration from Oklahoma University.

Mr. Ganjooloo Ochirpurev

Mr. Ganjooloo was appointed as a board member in 2022. Prior to that, he served as the chief executive officer of Golomt Financial Group LLC from 2016 to 2023. He worked as a consultant and senior consultant at PwC in Germany and Mongolia from 2008 to 2011. He also previously served as chief financial officer of Bodi International LLC from 2011 to 2018. He has also held position as a board member of Mandal Insurance since 2016 and Golomt Asset Management since 2023. He is a certified public accountant in Mongolia. Mr. Ganjooloo holds a master's and doctoral degree in economic theory from the Free University of Berlin.

Mr. James Bernard Dwyer

Mr. Dwyer was appointed as an independent member in 2018, and re-elected as an independent member in 2020, 2022 and 2023. He has an extensive investment banking experience, as he worked as the head of cross-border M&A for Union Bank of Switzerland from 1988 to 1991. He also served as the director of operations of North American Business Council from 2003 to 2007, and in 2007 founded the Business Council of Mongolia, served as its executive director until 2017. He is an independent board member of Mandal Insurance JSC, Mongolia Growth Group LLC and vice chairman of board of the Mongoljin Private Capital. He is also the chairman and president of the Mongolian Education Fund. Mr. Dwyer holds a bachelor's degree in business management from Notre Dame University, and a master's degree in business administration from Columbia University.

Mr. Alexander Picker

Mr. Picker was appointed as an independent member in 2021. He started his career in 1989 with the current Austrian Bank. He has many years of management experience as senior project officer in project finance at Die ERSTE bank from 1990 to 1993, division head corporate banking international, chief risk officer at the International Moscow Bank (IMB) from 1994 to 1999, CEO at the UniCredit Bank from 2007 to 2010, CEO at JSC ATF Bank from 2007 to 2010, CEO, CRO, CFO, and Country CEO at the Hypo Alpe-Adria Bank from 2011 to 2015, Director of the Holding and President of the Board of Hypo Bank Italy of the HBI Bundesholding AG from 2010 to 2015. He is currently the CEO of Moldindconbank in Moldova and Chairman of the supervisory board of the Ipoteka Bank, Uzbekistan from 2020 and 2023. Mr. Picker holds a master's and doctoral degree in business and law from the University of Salzburg.

Mr. Robert W. van Zwieten

Mr. van Zwieten is an independent member since May 2023. He brings more than three decades of experience spanning both global financial markets and sustainable development. He is currently a Founding Partner of Route17, an independent firm advising on SD Galigned institutional investment strategies, and chief executive officer of The Serendra Group, an emerging markets advisory firm. Prior to that, Mr. van Zwieten was the president and chief executive officer of EMPEA (now renamed GPCA) from 2013 to 2017, the global industry association for private capital in emerging markets. Before this, he served as Director of the Private Sector Capital Markets Division at Asian Development Bank from 2009 to 2012, following a global career in senior leadership positions at firms including Standard Bank from 2007 to 2008, Singapore Exchange from 2006 to 2007, Lehman Brothers from 2002 to 2005, General Electric from 1998 to 2022, ABN AMRO Bank from 1990 to 1998 and Royal Van Ommercen Ceteco from 1985 to 1990. Additionally, his professional experience includes working as a member of the board of directors, audit committee chair at Boustead Wavefront Singapore & Cayman Islands from May 2021 to December 2023, member of the board of directors, audit committee chair, risk committee chair at iFinance Leasing (Cambodia) from February 2018 to January 2023, and as a member of the board of Directors at the OnFrontiers, Inc. (USA) from November 2017 to November 2023. Currently, he holds positions as a member of the board of directors, governance, remuneration and nominating Committee at SeaOil Philippines Inc since June 2022 and Member of the Board of Directors, Finance Committee Chair at the Hong Bao Media Holdings Pte Ltd (Singapore) since November 2017. Mr. van Zwieten holds law degrees from both Leiden University and Columbia University, and a master's degree in business administration from the University of Chicago.

Mr. Hans Holzhacker

Mr. Hans Holzhacker was appointed as independent member in 2024. Mr. Hans Holzhacker has been Chief Economist at the CAREC Institute since January of 2020. During July 2017 to June 2019, he held a position as an Associate Director, and as a Lead economist for Central Asia at the EBRD. Hans has over 30 years' experience as an economist focusing on the economies of Central and Eastern Europe and the CIS. Hans was also Chief Economist at Golomt Bank in Mongolia from October 2016 to February 2017, and a at ATFBank in Kazakhstan from October 2008 to December 2013 in addition to holding a position of a Senior Scientific Advisor to the Narxoz University in Almaty from February 2014 to October 2016. Before, he was a Vienna-based Senior Economist focused on Russia and Ukraine, also in charge of CEE country rating, for Bank Austria, a member of UniCredit group, from July 2001 to September 2008. Hans was Senior Economist covering the Czech Republic, Slovakia, Slovenia and Ukraine at the Institute of International Finance in Washington, DC from 1999 to 2001, Head of Country Risk/Research at GiroCredit Research, Investment bank Austria, from 1993 to 1999, and Central European Economist at Nomura Research Institute from 1989 to 1993. He holds a Ph.D. in Sociology and a Masters in Economics from the University of Vienna in the years 1984 and 1988 respectively, and completed a postgraduate scholarship in the Economics Department of the Institute for Advanced Studies in Vienna in 1989.

SENIOR MANAGEMENT

As of the date of this Offering Memorandum, the members of our senior management are as follows:

Name	Age	Title
Mr. Norihiko Kato	65	Chief Executive Officer
Mr. Ganbold Galsan	64	President
Mr. Odonbaatar Amarzaya	38	Deputy Chief Executive Officer
Mr. Sainbileg Mandakh	41	Chief Information Officer

Mr. Norihiko Kato

Mr. Kato was appointed as the Chief Executive Officer in 2019. He has over 30 years of broad experience in the banking industry. He started his career at the Bank of Tokyo (now MUFG), and worked in Tokyo, New York, Amsterdam and Bahrain at all management levels of corporate banking, human resources and corporate planning. He served as the acting chief executive officer and chief executive officer of Khan Bank from 2011 to 2016. He was the chief executive officer of Sathapana Bank, Cambodia from 2016 to 2019. He served as vice president of Mongolian Bankers Association from 2021 to 2022. Mr. Kato holds degrees from the University of Tokyo and UCLA-Anderson School of Management.

Mr. Ganbold Galsan

Mr. Ganbold was appointed as the President in 2016. He joined the Bank in 2000 and held several positions over different periods. He served as Director of General Regulatory Division, Deputy Chief Executive Officer, Chief Executive Officer till 2015. From 2015 to 2016, he served as deputy chairman of the cabinet secretariat of the Government of Mongolia. Mr. Ganbold holds a bachelor's degree in engineering and economics and a master's degree in economics from the Irkutsk State Institute of National Economy.

Mr. Odonbaatar Amarzaya

Mr. Odonbaatar was appointed as the Deputy Chief Executive Officer in 2023. He joined the Bank in 2008 and held several positions over different periods. He served as Director of Information Technology and Performance Audit Department, Chief Audit Executive and other roles. Mr. Odonbaatar holds a bachelor's degree in banking management from the National University of Mongolia and a master's degree in financial management and marketing management from the Bangalore University.

Mr. Sainbileg Mandakh

Mr. Sainbileg was appointed as the Chief Information Officer in 2019. He joined the Bank in 2013 and held several positions over different periods. He served as the Director of Systems Department of Information Technology Division and the Director of Information Technology Division. Mr. Sainbileg holds a bachelor's degree in software engineering from the Mongolian University of Science and Technology, and a master's degree in computer science from the HAN University of Applied Science.

BOARD COMMITTEES

Our Board includes three committees: our Risk Management Committee, our Governance, Ethics, Remuneration and Nomination Committee and our Audit Committee. Each committee develops evaluations and recommendations to be reported to our executive management and our Board in relation to each of their functions.

Risk Management Committee

Our Board's Risk Management Committee is responsible for approving and monitoring the risk policies and associated practices of the Bank including management of the overall risk, financial and non-financial risk, credit risk, operational and compliance risks. The committee sets the risk appetite of the Bank, and reviews the implementation of the risk limits consistently, reviews the credit policies and credit committee charters, as well as compliance policies.

Our Board's Risk Management Committee currently comprises five members: Mr. Alexander Picker as chairperson of the committee, Mr. James Dwyer, Mr. Robert W. van Zwieten, Mrs. Ch.Munkhtsetseg, Mr. J. Unenbat as members.

Governance, Ethics, Remuneration and Nomination Committee

Our Governance, Ethics, Remuneration and Nomination Committee is responsible for monitoring the implementation of all issues related to the Bank's governance code and relevant policies, including the Code of Ethics and Code of Conduct. The committee provides recommendations and opinions on remuneration and performance to the Board and effective remuneration scheme for the executive management, and their performance evaluation system. The committee also oversees the general human resource management policy of the Bank and reviews manpower planning and general salary and remuneration policy of the Bank.

Our Board's Governance, Ethics, Remuneration and Nomination Committee currently comprises three members: Mr. James B. Dwyer as chairperson of the committee, Mr. Alexander Picker and Mrs. Ch. Munkhtsetseg as members.

Audit Committee

Our Audit Committee is responsible for reviewing the financial report of the bank and all internal audit reports on a monthly basis, and reports on implementation of planned audits and recommendations on a quarterly basis. The committee also assists the Board in the selection of independent auditor, reviews the audited financials, approval of audit plan and budget for internal audit division and reviews its implementation.

Our Board's Audit Committee currently comprises five members: Mr. James B. Dwyer as chairperson of the committee, Mr. Alexander Picker, Mr. Robert W. van Zwieten, Mrs. Ch. Munkhtsetseg and Mr. D. Munkhtur as members.

PRINCIPAL SHAREHOLDERS

CURRENT OWNERSHIP STRUCTURE

As used herein, beneficial ownership means the sole or shared power to vote or direct the voting or to dispose of or direct the sale of the ordinary shares of the Bank. A person is deemed to be the beneficial owner of securities that can be acquired within 60 days upon the exercise of any option, warrant or right. The amounts and percentages are based upon our shares outstanding as of the date of this Offering Memorandum.

The following table sets forth information regarding beneficial ownership of our shares as of the date of this Offering Memorandum held by:

- each person who is known to us to have more than 5.0% beneficial share ownership; and
- each of our Directors and the Board as a group.

Name of Shareholder	Number of Shares	Percentage of Shares
Golomt Financial Group LLC ⁽¹⁾	624,240,527	77.20%
Swiss-Mo Investment AG ⁽²⁾	42,120,816	5.21%
Bodi International LLC ⁽³⁾	27,661,497	3.42%
Golomt Investment Limited ⁽⁴⁾	20,800,000	2.57%
Public float ⁽⁵⁾	93,834,466	11.60%
Total issued and outstanding shares⁽⁶⁾⁽⁷⁾	808,657,306	100.0%

(1) Golomt Financial Group LLC is 100% owned by Mr. Bayasgalan Danzandorj.

(2) Swiss-Mo Investment AG is 99% owned by Mr. Urs Ernst Schwarzenbach and 1% owned by Mr. Guy Schwarzenbach.

(3) Bodi International LLC is 77% owned by Mr. Bayasgalan Danzandorj and 23% owned by Mrs. Munkhtsetseg Chultem.

(4) Golomt Investment Limited is wholly-owned by Bodi International LLC.

(5) Golomt Bank offered its shares to the public through an IPO in 2022.

(6) Mr. Urs Ernst Schwarzenbach, who owns 99% stake in Swiss-Mo Investment AG, which owns 5.21% stake in us.

(7) The Issuer has not issued any stock options, warrants or other similar instruments.

As of the date of this Offering Memorandum, Golomt Financial Group LLC, as our largest shareholder, holds a 77.20% equity interest in us. Golomt Financial Group LLC is wholly-owned by Mr. Bayasgalan Danzandorj, who is the ultimate beneficial owner, one of the founders, former CEO and former chairman of Golomt Bank from 2007 to 2012. Mr. Bayasgalan Danzandorj also owns 77% equity interest in Bodi International LLC, which owns 3.42% interest in us and 100% interest in Golomt Investment Limited which owns 2.57% interest in us.

Mr. Bayasgalan Danzandorj is Executive Chairman of Golomt Financial Group since 2015 and has served as chairman of the board of directors of Bodi International LLC since 2011, one of the leading business entities in Mongolia with businesses in banking and finance, real estate, media, trade and services. He has over 30 years of banking experience and has held several positions in financial institutions, chairman of the board of directors of Bodi Group from 1993 to 1996, president and CEO of the Bank from 1996 to 2007 and chairman of the board of directors of the Bank between 2007 and 2012, and chairman of the board of directors of Bodi International LLC from 2007 to 2012 and general director of Bodi International LLC from 1993 to 1996.

Mr. Bayasgalan was involved in certain legal proceedings in Mongolia. For more information, see “Risk Factors — Risks Relating to Our Business and Industry — Our controlling shareholder and related parties may exercise influence over certain of our affairs and may have interests which differ from ours and our reputation may be adversely affected by the previous legal proceedings involving Mr. Bayasgalan Danzandorj.”

In addition, we may not be able to meet the requirements newly imposed by Article 36.1 of the Amended Banking Law that requires that, by December 31, 2023, no person or related parties can hold more than 20% of the shares of a bank. As of the date of this Offering Memorandum, Mr. Bayasgalan Danzandorj, our founder and controlling shareholder, holds an 81.8% equity stake in us through his ownership interests in Golomt Financial Group LLC, Bodi International LLC, Golomt Investment Limited. Although we strive to attract more investors to diversify our shareholder base such as attracting public investors through our IPO on Mongolian Stock Exchange, we may not be able to comply with the shareholding requirements imposed by the Article 36.1 of the Amended Banking Law. See “Risk Factors — Risks Relating to the Mongolian Banking Industry — If we fail to fully comply with the various regulatory requirements applicable to us including the Banking Law of Mongolia, we may face regulatory action, our reputation could be harmed and our business, financial condition and results of operations could be materially and adversely affected.”

RELATED PARTY TRANSACTIONS

We enter into transactions with our major shareholders, directors and other related parties in the ordinary course of our operations. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. 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.

It is our policy to conduct our related party transactions on normal commercial terms and on an arm’s-length basis. We categorize related party transactions as follows:

- Immediate parent company: these are transactions with Golomt Financial Group LLC which is the main shareholder of the Bank.
- Entities under common control: these are transactions with entities under common control which are companies within Golomt Financial Group LLC and other companies the ultimate owner has control or significant influence.
- Directors and key management personnel: these are transactions with the board of directors and executive managers of the Bank.

In the normal course of business, we enter into transactions with entities under common control, which are companies controlled by Golomt Financial Group LLC and other companies over which the Bank’s controlling shareholder, Mr. Bayasgalan Danzandorj, has control or significant influence. These transactions include loans and receivables related to bancassurance and also retail products such as credit cards. According to the Bank’s policy, the terms of related party transactions are equivalent to those that prevail in arm’s length transactions. In 2021, 2022 and 2023, our loans and advances to entities under common control were MNT6,292.2 million, MNT31,198.5 million and MNT76,509.1 million (US\$22.4 million), respectively. As of December 31, 2023, the contractual interest rates of our gross amount of loans and advances to our related parties ranged from 0% (primarily related to our retail credit cards to related parties) to 22%.

For further details of significant related party transactions, see Note 44 to our financial statements for 2021, Note 44 to our financial statements for 2022 and Note 43 to our financial statements for 2023 included elsewhere in this Offering Memorandum.

REGULATORY OVERVIEW

BANKING RELATED LAWS

Law of Mongolia on Central Bank Law

The Law of Mongolia on Central Bank (the “Central Bank Law”) was promulgated on September 3, 1996, and established the legal framework for the operations of the Mongolian Central Bank, which is also referred to as the Bank of Mongolia. The Bank of Mongolia was established in 1924 and its main objective is to ensure the stability of the national currency and balanced development of the national economy. Its primary activities are: (i) issuing and regulating the national currency; (ii) formulating and implementing monetary policy; (iii) acting as the financial intermediary to the Government; (iv) supervising the activities of banks and other specific entities; (v) managing, regulating and monitoring the national payment system; (vi) holding and managing the state reserves of foreign currency; (vii) protecting the legitimate interests of banking customers; and (viii) implementing macroeconomic policies. The Central Bank Law was recently amended in January 29, 2021 following the recent Amendment to the Banking Law of Mongolia. The amendment seeks to secure the Bank of Mongolia’s independence from the Government and bring the decision-making process of the Bank of Mongolia in line with the international best practices. In particular, the Central Bank Law provides that decisions relating to implementation of monetary policy and supervision of banks must be discussed by the relevant committees within the Bank of Mongolia. The Bank of Mongolia may employ the following methods in implementing the monetary policy:

- setting capital and reserve requirements to be maintained by commercial banks;
- providing loans to banks through different financial instruments;
- implementing the unified policy on interest rates;
- conducting open market operations; and
- setting limits on the balance of loans provided by banks.

Open market operations by the Bank of Mongolia include the issuance, purchase and sale of Central Bank bills, and sale and purchase of government bonds, asset-backed securities and such other securities the Bank of Mongolia is permitted to engage in the monetary market. Further, the Bank of Mongolia may provide loans to the Government payable within the same fiscal year and purchase short-term, government-issued securities. The Central Bank Law prohibits the Government from providing directions to the Bank of Mongolia or entering into agreements on matters that are not specified in laws.

The board of directors of the Bank of Mongolia consists of the Governor, the First Deputy Governor, the Deputy Governor and a number of departmental directors. The Monetary Policy Committee comprising the Governor, the First Deputy Governor, the Deputy Governor and four non-executive members appointed by the Parliament is responsible for making the monetary policy decisions. The Governor may also attend parliamentary sessions, standing committee meetings and meetings of cabinet ministers and be consulted on issues related to the Mongolian banking sector.

The Bank of Mongolia uses Central Bank bills, repurchase/reverse repurchase transactions and overnight facilities to achieve policy targets. The Governor decides the amount of liquidity absorbed from or injected into the interbank market on a weekly basis.

With the adoption of the Debt Management Law of Mongolia in February 2015, the Bank of Mongolia is now also responsible for jointly preparing and publishing the balance of state external debt of Mongolia on a quarterly basis with the Ministry of Finance.

The Bank of Mongolia also issues regulations on prudential ratios, minimum share capital requirements and other matters applicable to commercial banks.

Banking Law of Mongolia

Commercial banks and their activities are governed by the Banking Law of Mongolia promulgated in 2010. Within the context of implementing state policies for the protection and stability of the banking sector, the Parliament of Mongolia enacted a new Banking Law of Mongolia on January 28, 2010 as a revision and restatement of the previous banking law of 1996. The revisions to this law were aimed at tightening banking sector requirements through increased transparency, adequate monitoring and other preventative measures. On January 29, 2021, the Parliament enacted the Law on Amendments to the Banking Law of Mongolia along with its implementation guidelines with effect from February 25, 2021 (the “Amended Banking Law”). In the Amendments to the Banking Law of Mongolia, commercial banks are defined as being state, privately or jointly owned, depending on the ownership of their paid-in capital; systemically important banks as open joint-stock companies and other banks as closed joint stock companies; and as general or specialized banks, depending on the type of banking services that are provided. The other key features of the amendments include: (i) change in the definition of a systemically important banks whereby the Bank of Mongolia is authorized to determine it considering the bank’s assets, debt ratio, total transaction flow holding in the payment system, banking activities and the state of relevancy in the finance system as a whole; (ii) new limitation on the shareholders of banks, including the amount of shares and securities owned by any person individually or jointly with its affiliated person in the bank (except for special purpose banks and the state-owned shares in re-capitalized banks) must not exceed 20% of the total issued shares of the bank, which banks must comply with by December 31, 2023; (iii) restriction on banks shareholders from creating security interest over its shares and securities holding in the bank; and (iv) new requirements for the corporate form of banks that Banks named as a systemically important bank by the BoM are to trade its common shares by way of organizing initial public offering in the securities market and to operate in the form of an open joint stock company and other banks are required to operate in the form of a closed joint stock company. With this amendment, Banks will each have to adopt a re-organization plan to become a joint stock company and comply with the 20% ceiling limit per shareholder. The plan must be submitted to the Bank of Mongolia and the Financial Regulatory Commission within July 1, 2021 for review and approval. With this amendment, the Bank of Mongolia now has a wider range of regulatory powers over commercial banks, especially in respect of measures for preventing bank failures and providing solutions to troubled banks. The amendments also changed the priorities in payments of claims upon an insolvency event of banks. For instance, (i) the compensations for bank’s employees now rank higher than those of Bank of Mongolia receiver and his/her operational expenses; (ii) the uninsured savings and current bank account funds of individuals and legal entities now rank higher than those insured by the insurer; and (iii) Government’s claims now rank higher than those owed to the Bank of Mongolia and other creditors, *etc.* Accordingly, the Bank of Mongolia and the Financial Regulatory Commission jointly adopted the Provisional Regulation on procedures for the re-organization and changes in the share capital and shareholding structure of banks in accordance with the Amendment.

The Banking Law of Mongolia permits these institutions, upon authorization by the Bank of Mongolia, to conduct the following activities:

- accept deposits;
- provide loans;
- provide payment and settlement services;
- provide payment guaranties to third parties on their own behalf;
- purchase, sell and deposit foreign currencies;
- purchase, sell and deposit precious metals and gem stones;
- receive valuables into custody;
- conduct foreign exchange and payment services;

- issue, buy and sell securities;
- purchase and sell loans and other financial instruments; and
- conduct financial leasing transactions.

Further, subject to the permission of the FRC and the Bank of Mongolia's confirmation that it does not object, the Banking Law of Mongolia allows commercial banks and their controlled entities and subsidiaries to engage in the following additional activities:

- investment, financial consulting and information services;
- trustee services;
- insurance brokerage;
- underwriting;
- custodial services; and
- factoring.

Below is a summary of the main provisions of the Banking Law of Mongolia, as amended:

- ***Mandatory corporate form of banks***

On January 29, 2021, the Parliament enacted the Law on Amendments to the Banking Law of Mongolia along with its implementation guidelines with effect from February 25, 2021. Pursuant to the Amendments to the Banking Law of Mongolia, any and all commercial banks are required to operate as joint stock companies with effect from June 30, 2023. Particularly, banks named as a systemically important bank by the Bank of Mongolia are to trade its common shares by way of organizing initial public offering in the securities market and to operate in the form of an open joint stock company.

- ***The transfer of a bank's shares***

Banks are required to inform the Bank of Mongolia in writing if changes occur in the size or structure of their share capital. Further, in the event that a party attempts to become an "influential shareholder" (defined as a person or its beneficial owner who owns 5% or more percent of a bank's shares individually or jointly with a related party or a shareholder or its individual beneficial owner who can influence the bank's policies decisions and management) in a bank, or an existing "influential shareholder" changes the size or structure of his ownership interest in the bank, then the bank must inform the Bank of Mongolia in writing and obtain permission prior to making any such change.

An "influential shareholder" in one bank, along with parties that are related to such shareholder, are prohibited from becoming "influential shareholder" in another bank. If such a situation arises, or if a party alone or with others becomes an "influential shareholder" without the permission of the Bank of Mongolia, and this situation is discovered following an inspection, then the Bank of Mongolia will suspend all dividend issues and the voting rights related to the shares in question. In order to satisfy the law, the Bank of Mongolia will require the sale of said shares within 30 days following the last date of possession of the shares.

- ***Influential shareholder***

Article 36.19 of the Banking Law outlines that an influential shareholder of the bank must meet the following criteria:

1. the person in question shall not be a respondent or a competent official of a respondent legal entity of a bankruptcy case;
2. if an influential shareholder is a legal entity, the banking conglomerate should have a structure that allows examination by the Bank of Mongolia;
3. shall prove ultimate beneficial owner of the shares;
4. neither the influential shareholder nor the ultimate beneficial owner shall hold high public office;
5. having no history of committing crimes against the economy, property rights, public safety, interests, corruption, national and mankind security, or peace; and
6. having a financial capacity.

Further, under the Banking Law, an “influential shareholder” refers to a person who owns five percent or more of the bank’s shares individually or together with a related person, their ultimate owner, or a shareholder (or its ultimate owner) who can influence the bank’s policies, decisions, and management and “banking conglomerate” refers to separate entities which are related parties to each other and one of which is a bank.

- ***Subsidiaries and controlled entities***

On January 18, 2018, Parliament enacted the Law on Implementation of the Amendments to the Banking Law of Mongolia (“Amendments Implementation Law”) which became effective on April 1, 2018. The Amendments Implementation Law provides that any capital contributions or shareholding rights of banks in their subsidiaries or affiliated companies must be terminated effective of January 1, 2019 and that banks will be permitted to hold only up to 10.0% of the shares of any legal entity.

- ***Capital requirements***

The Banking Law of Mongolia provides that the minimum amount of paid-in capital for a bank is determined by the Bank of Mongolia, after taking into consideration factors such as the state of the national economy, the local inflation rate, the solvency of banks, and the specific types of operations to be undertaken by a bank. Pursuant to decree No. 200, dated April 8, 2004, the Governor of the Bank of Mongolia has set the minimum required amount of paid-in capital for banks to MNT8.0 billion. In July 2011, the Governor of the Bank of Mongolia issued Order No. 404 pursuant to which the minimum required paid-in capital for commercial banks was increased to MNT16 billion effective from May 1, 2013. On April 1, 2015, the Bank of Mongolia increased the minimum required paid-in capital for commercial banks to MNT50.0 billion. Commercial banks were required to increase their capital accordingly by December 31, 2017. On October 30, 2017, the Bank of Mongolia further increased the minimum required paid-in capital for commercial banks to MNT100.0 billion. Commercial banks are required to increase their capital accordingly by December 31, 2021.

A bank may only distribute dividends if, after said distribution, it will continue to meet the mandatory prudential ratios set by the Bank of Mongolia. A bank must determine the amounts of any decrease or increase in its capital in accordance with profits earned or losses accrued from banking activities and fluctuations in the amount of its provisions.

The Bank of Mongolia, together with the Mongolian Ministry of Finance, issues procedures for the establishment and allocation of funds from provisions created to cover losses that may accrue from defaults on loan repayments.

- ***Single borrower and related party limits***

The total value of loans, loan equivalent assets and guarantees provided to a single borrower or related parties of said borrower by a bank must not exceed 20% of the capital of the bank.

- ***Guarantee limits***

The total value of guarantees provided by a bank may not exceed the total amount of the bank's capital.

- ***Conflicts of interests***

If loans, loan equivalent assets and guarantees to a related party are past due by more than six months, or if the total value of loans, loan equivalent assets and guarantees provided to a related party exceeds 5% of the equity of a bank, such related party shall be prohibited from participating in the bank's management.

- ***Exposure limits***

The total amount of securities that may be purchased by a bank must not exceed 20% of the capital of a bank, or, in respect of any specific issuer, 10% of the total amount of the shares issued by it. This does not apply to securities issued by the Government, the Bank of Mongolia or shares issued by a credit information bureau.

- ***Disclosure requirements***

In addition to publishing the requisite financial statements, a bank is required to publicly disclose information on (i) the identities of influential shareholders, executive officers, their deputies, the chief accounting officer, senior executives of the branches, and the names of the supervisory committee's members; (ii) information on loans, credit facilities, obligations, services and transactions provided to related parties; (iii) the form, timeline and implementation approach for re-organization, legal status and location of the proposed new entity, nature of operation that will be carried out by the bank, principal documents with respect to financial activities; and (iv) other information considered necessary by the Bank of Mongolia to assess bank's exposure to risks.

With the adoption of the revised Law of Mongolia on Accounting on June 19, 2015, the Banking Law of Mongolia was amended. The amendment now requires banks to prepare their financial statements in accordance with the new accounting standards provided in the revised Law of Mongolia on Accounting.

In addition, the banks may release and disclose any information which may be deemed as confidential by the banks, their customers, and/or third parties, to the law enforcement authorities specified in the Banking Law of Mongolia.

Law of Mongolia on Ensuring Banking Sector Stability

Parliament approved the Law on Ensuring Banking Sector Stability (the "Banking Sector Stability Law") on June 22, 2018. This law aims to address capital adequacy issues concerning Mongolian commercial banks following the AQR conducted under the IMF program and conditions under which government bailout of commercial banks may take place. The law applies to those banks which are regarded as systemically important (i.e., determined as a systemically important bank by the Bank of Mongolia considering its assets, debt ratio, total transaction flow holding in the payment system, banking activities and the state of relevancy in the finance system as a whole) and do not meet applicable capital adequacy requirements. The law provides for main requirements and eligibility criteria for systemically important banks to obtain government-funded bailout. The Bank of Mongolia plays a central role in implementing this law and reviewing the eligibility criteria following the receipt of application for government bailout by commercial banks. The Banking Sector Stability Law mainly focuses on recapitalization of eligible commercial banks by way of injecting public funds into the Tier 1 and Tier 2 capital of the banks in the form of cash or government bonds. The public-funded recapitalization mechanism offered under the

Banking Sector Stability Law is available to the banks that are (i) considered having systemic impact under the Banking Sector Stability Law; (ii) viable in the medium 5-year term; and (iii) unable to recapitalize itself through raising capital from private sources. According to the Banking Sector Stability Law, the public funds invested in a bank capital must be repaid to the state budget in accordance with a plan that is to be approved by the Minister of Finance on consultation with the Governor of the Bank of Mongolia within five years from the enactment of the law.

Law of Mongolia on Deposits, Transfer of Funds and Lending Activities of the Banks and Authorized Legal Persons

The Law of Mongolia on Deposits, Transfer of Funds and Lending Activities of the Banks and Authorized Legal Persons, enacted by the Parliament on May 21, 2021, regulates relations with respect to deposits, loans or transfer of funds provided by banks and other authorized legal entities. Under this law, the Bank of Mongolia and the Financial Regulatory Commission are to jointly adopt the methodology for calculating interest rates for loans.

Law of Mongolia on Deposit Insurance

The Parliament adopted the Law on Deposit Insurance on January 10, 2013 with the latest amendment made on January 12, 2024 (the “Deposit Insurance Law”). The Deposit Insurance Law establishes a mandatory scheme to protect bank deposits. The Deposit Insurance Law replaced the Law of Mongolia on Issuing a Guarantee for Savings Held at Banks adopted as of November 25, 2008. According to the Deposit Insurance Law, Mongolian banks that are licensed to take deposits and collect bank service related fees or conduct payment settlement services are required to join a proposed deposit insurance scheme and pay applicable deposit insurance fees. Deposit insurance coverage is limited to MNT20.0 million per depositor.

Under the Deposit Insurance Law, the deposit insurance corporation was established in June 2013 with an aim to operate the deposit insurance scheme and carry out the overall management of the deposit insurance fund. A deposit insurance fund was established from sources including initial contributions from the state budget, the Bank of Mongolia, deposit insurance fees, income from sale of assets belonging to liquidated banks and bonds issued by the deposit insurance corporation. The proceeds of the deposit insurance fund can only be used for pay outs to depositors, assistance to banks receiving deposits from liquidated banks, covering operating expenses of the deposit insurance corporation and payments of the deposit insurance corporation’s principal and interest on loans borrowed or bonds issued. The National Committee on Deposit Insurance is the highest authority governing the deposit insurance corporation and the deposit insurance fund.

According to the Deposit Insurance Law, the Governor of the Bank of Mongolia and the Minister of Finance shall jointly approve a quarterly deposit insurance fee to be contributed by Mongolian banks.

Governor’s Orders of the Bank of Mongolia

Pursuant to the Governor of Bank of Mongolia’s Order No. 404 dated July 8, 2011 (“Order 404”), all local banks in Mongolia were required to have minimum paid in capital of MNT16 billion as of May 1, 2013. In addition, any subsidiary of a foreign bank licensed to operate in Mongolia was required to have a minimum paid in capital of MNT65 billion under Governor’s Order No. A-81 of June 7, 2012. On April 1, 2015, the Governor of Bank of Mongolia issued Order A-58 (“Order A-58”), which further increased the minimum required paid-in capital for commercial banks to MNT50.0 billion. On October 30, 2017, the Governor of Bank of Mongolia issued Order A-276, which requires the banks to have a minimum paid in capital of MNT100 billion by December 31, 2021.

The Governor of Bank of Mongolia issued Order No. 726 dated December 14, 2011 (“Order 726”), which requires all banks in Mongolia to readjust their capital adequacy requirement (as described below) and amends regulation relating to setting and monitoring prudential ratios applicable to commercial banks in Mongolia.

The new minimum capital adequacy ratio requirement became effective from June 30, 2012 according to Order 726 and provided for staged increase in the minimum capital adequacy ratio in the following manner:

Effective date:	As of June 30, 2012	As of December 31, 2012	As of June 30, 2013
Tier 1 capital to risk weighed asset adequacy ratio . .	7.0%	8.0%	9.0%
Capital to risk weighed asset adequacy ratio	12.0%	12.0%	12.0%
Additional capital requirement	0.5%	1.0%	2.0%
Total capital to risk weighed asset adequacy ratio . .	12.5%	13.0%	14.0%

- (1) Commercial banks in Mongolia, including us, which constitute more than 5.0% of total assets of the Mongolian banking system during the course of past six months upon issuance of Order No. 726 will be subject to additional capital requirement.
- (2) The Bank of Mongolia adopted the Guidelines on the Operational Risk Estimation for banks on November 17, 2006 under Order No. 537 of the Governor of the Bank of Mongolia in order to provide guidelines to the banking personnel and inspectors with respect to mathematical and statistical figures of calculating the operational risks in the financial organizations.
- (3) The Bank of Mongolia adopted the Guidelines on the Liquidity Risk Management on June 2, 2008 under the Governor's Order No. 239 for the purpose of guiding the commercial banks to maintain the liquidity ratio and implement the provisions on the disbursement and transfer of depositor's funds on first demand.
- (4) The Guidelines on Interest Rate Risk Management was adopted on May 1, 2000 under Order No. 9 of the Governor of the Bank of Mongolia. The purpose of this Guidelines is to define the rights and duties of the Bank of Mongolia, the board of directors of banks, executive director, assets and liabilities committee, internal audit department and the audit organization in connection with implementing and supervising the interest rate risk management.

Effective from March 28, 2007, the Bank of Mongolia adopted, as amended from time to time, the Regulation on Calculating and Controlling Reserve Requirements, pursuant to which commercial banks must deposit at least 50.0% of their required Tugrik and foreign currency reserves with the Bank of Mongolia on a daily basis. Under the regulation, the Bank of Mongolia may pay interest on such deposits at a rate equal to 50.0% of the Bank of Mongolia's overnight deposit rate for Tugriks. In addition, commercial banks are allowed to offset up to 50.0% of their foreign currency reserve requirements with surpluses of Tugrik reserves. These requirements came into force on December 30, 2014. On March 23, 2018, the Monetary Policy Committee of the Bank of Mongolia set the reserve requirements for Tugrik and foreign currency deposits at 10.5% and 12.0%, respectively. In 2022, the Monetary Policy Committee of the Bank of Mongolia revised the requirements for Tugrik and foreign currency deposits to 8.0% and 18.0%, respectively.

Pursuant to Order No. A-122 of the Governor of Bank of Mongolia dated July 30, 2014, the Bank of Mongolia amended its regulations with respect to the risk weighting of certain foreign currency-denominated loans, effective January 1, 2015. This amendment increased the risk weighting of certain foreign currency-denominated loans from 100.0% to 120.0%.

On July 23, 2018, the Bank of Mongolia approved a revised version of the "Regulation on Methodology for Calculating Bank Interest Rates and Transparency of Information on Interest Rates, Fees and Charges" for the purpose of increasing the level of information transparency and protecting the interest of depositors and customers.

In addition, on March 23, 2018, the Bank of Mongolia revised the "Regulation on Determining, Calculating and Monitoring Bank Minimum Reserves" which came into effect from May 9, 2018 and further revised it on December 6, 2019 under Order No. A-295 of the Governor of Bank of Mongolia. The initial revision followed the comprehensive amendment made to the Banking Law of Mongolia in early 2018.

Regulations relating to the Licensing Procedures for Establishing a Bank

Following the comprehensive amendment made to the Banking Law of Mongolia in 2018, the Bank of Mongolia adopted the “Procedures for permission to change the size and structure of the Bank’s share capital” under Order No. A-82 dated March 22, 2019 and Order No. A-146 dated July 20, 2023 of the Governor of the Bank of Mongolia, which adopted the “Regulation on setting and implementing the conditions and requirements for establishing a bank.” These regulate the relations with respect to any changes in the shareholding structures and share capital of the bank, issuance of shares or securities related to shares of the bank and invalidating the banking licenses. The Banking Law was also amended on January 6, 2023. The amendment of January 6, 2023 to the Banking Law stipulates that banking license is to be granted for an indefinite period. Regulations related to the requirements for the establishment of a bank branch, the approval stage, grounds for refusing to grant a bank operation license, changes in the structure of the bank, influential shareholders, and changes in the amount of share capital have also been added.

Regulation on Setting and Monitoring Prudential Ratios for Banking Operations

On May 23, 2019, the Bank of Mongolia adopted the revised version of the “Regulation on Setting and Monitoring Prudential Ratios for Banking Operations” under Order No. A-138 of the Governor of the Bank of Mongolia. Under this regulation, the banks must maintain the prudential ratios for the banking operations, including (i) capital adequacy ratio, (ii) liquidity ratio, (iii) foreign currency risk ratio, and (iv) ratio for fund concentration risk.

Methodology for Identifying the Systemically Important Banks

On April 19, 2021, the Bank of Mongolia adopted the “Methodology for Identifying the Systemically Important Banks” under Order No. A-105 of the Governor of the Bank of Mongolia as per the Amended Banking Law. As stated in the Methodology for Identifying the Systemically Important Banks, in determining the systemic importance of the bank, the Bank of Mongolia is to consider the bank’s total assets and debt ratio, amount of net contingent liability, receivables from the other financial institutions, debts to the other financial institutions, main banking activities and total transaction flow holding in the payment system. To identify the systemically important banks, the Bank of Mongolia is to follow the principle of assessing the extent of the potential impact of the bank’s liquidation within the domestic economy, banking and financial sector of Mongolia.

Procedures for Implementing the Principles of Banking Corporate Governance

On May 9, 2022, the Bank of Mongolia adopted the Regulation on Supervision of Implementation of the Principles of Corporate Governance for Banks under Order No. A-143 of the Governor of the Bank of Mongolia. The regulation was adopted in order to improve corporate governance in the banking sector by complying the operations of the shareholders meeting, the board of directors and executive managements with the legitimate interests of shareholders, customers, depositors and affiliated persons of the bank.

Provisional Regulation for Providing Loans to Banks by the Bank of Mongolia

Pursuant to the Law of Mongolia on Prevention and Response to the Covid-19 Pandemic and Reducing Adverse Effects on Society and Economy, on June 3, 2020, the Bank of Mongolia adopted the “Provisional Regulation for Providing Loans to Banks by the Bank of Mongolia” which was in effect until December 31, 2020 under Order No. A-192 of the Governor of the Bank of Mongolia. The purpose of this regulation was to ensure stability of the banking sector by providing loans to domestic banks and to improve financial conditions of the commercial banks during the adverse effects of the Covid-19 pandemic.

Provisional Regulation for Preparing, Implementing, Reporting and Supervising a Plan for the Re-Organization and Changes in the Share Capital and Shareholding Structure of Banks

Following the Amended Banking Law, the Bank of Mongolia and the Financial Regulatory Commission have jointly adopted the “Provisional Regulation for Preparing, Implementing, Reporting and Supervising a Plan for the Re-Organization and Changes in the Share Capital and Shareholding Structure of Banks” under their joint Order. No. A-90/85 dated March 26, 2021. This Regulation provides the types of information (including the general and financial information, number, amount and timeframe for the re-organization of the bank by way of initially offering its shares to the public and information of the potential institutional investors for the bank) that are necessary to be included in the bank’s re-organization plan. Each of the Bank of Mongolia and the Financial Regulatory Commission is to examine the re-organization plan and notify the applicant bank within 60 days. If the Bank of Mongolia and the Financial Regulatory Commission deems that the bank’s re-organization plan does not meet the requirements, they shall require the bank to update the re-organization plan based on the proposal from the Bank of Mongolia and the Financial Regulatory Commission. Upon approval of the re-organization plan, the bank must submit quarterly implementation report of its re-organization plan within the 15th day of the following month.

Strategy to Reduce Loan Interest Rates

On August 28, 2020, the Parliament passed Resolution No. 21 on “The Strategy to Reduce Loan Interest Rates” to be implemented between 2020 and 2024. Under the Strategy to Reduce Loan Interest Rates, the Parliament approved the following strategic directions for the reduction of loan interest rates:

- create macro stable environment to reduce expenses for loan resources;
- reduce costs of loan risk;
- reduce operating costs of banks; and
- develop stock market, create competition and reduce costs of financing.

The Government, the Bank of Mongolia, Financial Regulatory Commission and the Deposit Insurance Corporation are obliged to implement the approved strategic directions.

LAWS RELATING TO FISCAL POLICY

Budget Law of Mongolia

The Parliament adopted the revised Budget Law of Mongolia on December 23, 2011, which became effective on January 1, 2013 (the “Budget Law”). The most significant change introduced by the Budget Law is greater decentralization by clearly defining delegated functions among sub-national governments. The Budget Law establishes budgeting principles and scope, clarifies expenditure and revenue categories, specifies the responsibilities of the bodies that participate in the budgeting process and improves budget transparency and accountability.

With the passage of the Law of Mongolia on Debt Management Law on February 18, 2015, the Budget Law was amended to reflect a new regime for managing Government debt. These amendments require Government guarantees and foreign loans guaranteed by the State budget to be included in the State budget, which must be approved and ratified by Parliament annually. These new requirements increased the level of control and supervision over the State budget and disbursements of the proceeds from Government bond issuances. For example, beginning in 2015, the annual budget includes a list of projects funded by Development Bank of Mongolia LLC that are intended to be refinanced by the State budget.

The Budget Law was further amended on October 30, 2015. According to this amendment, the Minister of Finance was granted the authority to execute agreements accepting foreign grants and aid on behalf of the Government of Mongolia in cases not specifically authorized by the Government.

The Budget Law was amended on November 10 and November 26, 2015. According to the amendment made on November 10, 2015, fully and partially state and locally owned legal bodies must submit their annual financial statements to state audit bodies by February 15 and submit their audited financial statements to the respective general budget governors and the Ministry of Finance by March 15. These amendments came into effect on January 1, 2016, together with the Law of Mongolia on Development Policy and Planning. Additional minor technical amendments to the Budget Law have been made from time to time.

Law of Mongolia on Fiscal Stability

On June 24, 2010, the Parliament approved the Law on Fiscal Stability (the “Fiscal Stability Law”), which became effective on January 1, 2013. The Fiscal Stability Law provides for medium term to long term policies aimed at establishing a sound legal environment for the formulation and implementation of economic and fiscal policies.

Specifically, the Fiscal Stability Law establishes special budgetary requirements and fiscal management principles to stabilize the budget process. The special budgetary requirements are: (i) budget revenue shall be calculated on the basis of prices forecast for key minerals, (ii) the budget deficit of any given year shall not exceed 2.0% of GDP, (iii) the growth rate of the total expenditure of the budget shall not exceed the higher of the growth rate of nominal non-mineral GDP for the given year or for the preceding 12 years, and (iv) the government’s debt balance (“Government Debt Ceiling”) calculated at net present value shall not exceed a certain percentage of GDP in each year. The Government Debt Ceiling was 58.3% of GDP for 2015, 55.0% of GDP in 2016, 50.0% of GDP in 2017 and 40.0% of GDP starting from 2018. However, on September 9, 2016, the Government Debt Ceiling was amended to 88.0% of GDP for 2016, 85.0% of GDP for 2017, 80.0% of GDP for 2018, 75.0% of GDP for 2019, 70.0% of GDP for 2020, 2021 and 2022, 65.0% of GDP for 2023 and 60% of GDP for 2024. “Government Debt” includes (a) debt instruments issued by the Government of Mongolia, aimag or capital city payable to others; and (b) payments due under a Government debt guarantee incurred by law or contract. However, Government debt guarantees backed or secured by Government bonds are excluded from the calculation of this Government Debt Ceiling.

The Fiscal Stability Law also creates a fiscal stabilization fund (the “FSF”), which provides that any mineral revenue in excess of that estimated in the budget be placed in the FSF. These savings would then be used during a downturn to finance the budget. According to the Law of Mongolia on Government Special Fund (2019), the FSF is primarily funded by contributions from the following sources:

- balanced budget exceeded revenue;
- structural budget balance income;
- outstanding free sources of the Government reserve and risk funds of such years; and
- operating income of the FSF.

In May 2015, Parliament approved certain amendments to the Fiscal Stability Law. These amendments exclude from the calculation of the Government debt ceiling any loans or debt guarantees through which the Government invests or receives a stake in an entity operating in the energy, railway, or mining sectors, and where such loans or debt guarantee agreements will be repaid from the proceeds of such entities.

In addition to amending the Government Debt Ceiling, the September 9, 2016 amendment to the Fiscal Stability Law also stipulated that the net deficit to GDP ratio shall not exceed 18.5% in 2016, 10.4% in 2017, 9.5% in 2018, 6.9% in 2019, 12.5% in 2020, 8.8% in 2021, 5.1% in 2022, 3.6% in 2023, 2.8% in 2024 and beginning from 2025, 2%.

Debt Management Law of Mongolia

On February 18, 2015, Parliament approved the Law on Debt Management, which includes procedural guidance regarding how the Government incurs and manages its internal and external debt (the “Debt Management Law”). The Debt Management Law was last amended on January 17, 2024, enabling Ulaanbaatar, the Capital City of Mongolia to issue foreign securities with government guarantee.

The Debt Management Law redefined external state debt, Government debt and Government debt guarantees such that only debt incurred by the Government of Mongolia, aimags and the capital city, and payments under Government debt guarantees under law or contract would be included when calculating the revised debt ceilings under the Fiscal Stability Law. It also clarified the grounds on which the Government is permitted to incur debt as follows:

- re-financing the budget deficit;
- financing seasonal budget deficit;
- supporting the domestic market for Government securities;
- re-financing debt;
- finance state investment plans;
- increase the foreign reserves of the Bank of Mongolia in the interest of the balance of payments; or
- recapitalization of banks in accordance with the Banking Sector Stability Law.

The Debt Management Law states that the Government is permitted to issue a debt guarantee to Development Bank of Mongolia LLC, state-owned entities and legal entities with domestic investment registered in Mongolia. Furthermore, Government debt guarantees may be given for the full amount of borrowings by state-owned Development Bank of Mongolia LLC or up to 85% of borrowings by other eligible entities. However, if the obligor holds Government bonds, the Government debt guarantee may be given up to the equivalent amount of Government bonds held by the obligor.

The Debt Management Law also establishes procedures for managing Government debt and Government debt guarantees, including guarantee fees payable to the Government, documentation requirements for Government debt guarantees, annual risk assessment of Government guaranteed debt by the Ministry of Finance, notice and other procedural requirements in the event that a Government guarantee is called, and the establishment of a debt guarantee fund for payments due under the Government guarantee agreements with the relevant obligor and creditor.

“Regulation on trading of Government Securities on Initial and Secondary Securities Markets” was adopted on February 20, 2019 (as amended in 2020) under the Government Resolution No. 77.

On June 22, 2018, the Parliament approved an amendment to the Debt Management Law in accordance with the Banking Sector Stability Law. The Debt Management Law was further amended by the Parliament on November 13, 2019, removing the capacity of the Ministry of Finance to form a Government debt-guarantee fund or provisions relating to Government debt guarantee funds.

Securities Market Law of Mongolia

On May 24, 2013, the Parliament enacted a revised Law on Securities Market (“Securities Market Law”) with effect from January 1, 2014, which replaced the securities markets law of 1994. The purpose of the Securities Market Law was to introduce effective and clear guidance with respect to initial public offerings of shares and define the distinction between primary and secondary securities market activities while providing measures preventing insider dealings and market abuses.

According to the Securities Market Law, the total value of debt instruments issued by a company must not be greater than its net assets value. The total value of debt instruments issued with a third-party guarantee must not be greater than the total sum of the amount of the relevant company’s net asset value and the total guarantees issued by the third party.

In addition, it imposes higher standards and registration requirements for securities markets participants as well as advisory service providers, including law firms and audit firms. The Securities Market Law defines securities broadly to include derivatives, depository receipts and warrants, and expressly permits over-the-counter trading of securities.

The major provisions of the Securities Market Law include, among others:

- allowing dual-listing by companies whose shares are listed on the Mongolian Stock Exchange;
- expanding issuer’s responsibilities and disclosure requirements;
- clarifying the definition of “regulated operations” to make any persons engaged in regulated operations subject to license or registration requirements under the law;
- allowing the issuance of depository receipts by a legal person authorized to conduct securities custodial services;
- providing a clear distinction between legal and beneficial ownership and permitting trustee and custodial services to be provided to beneficial owners;
- laying out the framework for settling trades in clear terms based on a “T+3” system whereby securities trades are settled via delivery and payment within three business days after the trade is initiated;
- creating a legal framework for self-regulating organizations, such as the Mongolian Stock Exchange and securities clearing, settlement, and depository organizations; and
- increasing the extent of individual liabilities for breaching the Securities Market Law.

According to Articles 16.1, 16.2 and 17.2 of the Securities Market Law and the “Regulation for Issuance of Securities in Mongolia by a Legal Entity Registered with a Foreign Stock Exchange and for Registering Securities to be issued by a Legal Entity Registered with the Mongolian Stock Exchange in the Foreign Market” 2018/19 adopted by the FRC, legal entities registered with the Mongolian stock exchange must notify the FRC of their intention to issue securities on a foreign stock exchange before making any announcement. Furthermore, pursuant to the “Regulation for Registration of Debt Instruments” 2021/226 adopted by the FRC, legal entities registered in Mongolia are required to notify the FRC prior to issuing securities in the foreign securities market. The FRC is required to confirm receipt of the notification within three business days of such notification. Under both regulations, within five business days of the receipt of the decision by a foreign stock exchange confirming listing of the Notes on such foreign stock exchange, the Issuer is required to deliver a copy of such decision to the FRC.

Law of Mongolia on Investment

Parliament enacted the Law on Investment on October 3, 2013 with effect from November 1, 2013 (the “Investment Law”). The Investment Law removed all requirements for prior Government or Parliamentary approval of any private investments in certain designated strategic sectors of Mongolia (including the banking and finance, media and communications and minerals sectors) that were previously required under the repealed Strategic Entities Foreign Investment Law. However, investors with foreign (direct or indirect) state ownership of 50.0% or more are still required to obtain approval from the Ministry of Economy and Development when acquiring an interest of 33.0% or more in a company operating in one of the strategic sectors identified in the Investment Law. The Investment Law also replaced the Foreign Investment Law of Mongolia of 1993.

The Investment Law provides for equal treatment of investors, whether domestic or foreign. It also provides for granting a tax stability certificate to any qualified investor with the aim of allowing such investor to obtain stable rates for a certain period. Qualification for obtaining such a certificate is based on the proposed investment amount, the proposed investment location in Mongolia (e.g., there is a lower minimum threshold for investment in rural areas) and the proposed industry sector of the investment. The term of a tax stability certificate would be subject to consideration of the foregoing factors as well as other factors, including job creation, introduction of new technologies and generation of export revenue. The issuance of a tax stability certificate aims to stabilize the taxes provided for in the Investment Law during the term of such certificate.

The Investment Law also allows investors in large projects (with a total investment of MNT500.0 billion or more) to enter into an investment agreement with the Government, which will provide such investors with greater coverage beyond the tax stability coverage under the tax stability certificate. On February 21, 2014, the Government adopted “The Regulations for Entering into an Investment Agreement” by Resolution No. 52.

Law of Mongolia on Free Economic Zones

On February 12, 2015, the Parliament of Mongolia enacted the Law on Free Economic Zones, which replaced its predecessor law enacted in 2002. This law regulates the establishment, modification and liquidation of free economic zones, determines the legal grounds and implements procedures for their location, management authority, supervision, taxation, customs house, civil and legal entity registration, and a special regime of employment in the zone.

Law of Mongolia on Development Policy, Planning and its Management

On November 26, 2015, Parliament adopted the Law on Development Policy, Planning and its Management. The purpose of this law is to plan, implement, monitor and evaluate various development policies of Mongolia, to determine the principles, rights, duties, and responsibilities of the relevant parties, and to create an integrated system of development policies. This law aims to ensure that Mongolia’s national development policies will continue to be implemented consistently even upon changes in the Government administration. Under this law, political parties may develop action plans within the

framework of the national development policy. The law came into effect on January 1, 2016. In connection with the Amendment to the Constitution of Mongolia, which was adopted by the Parliament on November 14, 2019, the Parliament enacted the revised version of the Law on Development Policy and Planning on May 07, 2020. This law was last amended on July 07, 2020.

Measures against Corruption and Bribery

Corruption and bribery are key threats to Mongolia's economic growth and democratic governance. In an effort to address concerns regarding corruption and bribery, the Government has instituted a variety of measures and participates in international anti-corruption conventions, regimes and protocols, such as the Anti-Corruption Plan of the ADB and the United Nations Convention Against Corruption.

In July 2002, the Parliament enacted the National Program to Combat Corruption. In 2005, the Government collaborated with the United Nations to attain goals established by the United Nations Convention Against Corruption. In January 2006, Parliament passed the Anti-Corruption Law of Mongolia (the "Anti-Corruption law"). The Anti-Corruption Law provides for the establishment of an independent anti-corruption agency with its own structure, special powers and functions. In 2007, the Independent Authority Against Corruption ("IAAC") was established to educate the public, take measures to prevent corruption, examine the property and income declarations of officials and investigate corruption crimes. However, the Prosecutor General is in charge of taking the alleged corruption crimes to court. Within the framework of promoting anti-corruption, the IAAC completed an anti-corruption training program throughout every government unit. Under the Anti-Corruption Law, members of the Parliament and high-ranking public officials are required to declare their income and assets within 30 days of being elected.

On January 19, 2012, the Parliament of Mongolia adopted the Law on Regulating Public and Private Interests in Public Service and Preventing Conflicts of Interest (the "Conflict of Interest Law" or "CIL"). The CIL came into effect on May 1, 2012. The CIL aims to prevent conflicts of interests arising from an official's carrying out of public duties and his or her own private interests, and to regulate and monitor conflicts of interest in order to ensure that public service activities accord with the public interest and that transparency and faith in public services are maintained. The key features of the CIL are that it (i) provides a definition of "public official" and his/her related and affiliated persons; (ii) requires public officials to make declarations in respect of no conflict of interest, and public officials and nominees for public office or public official roles to make declarations in respect of their private interests; (iii) introduces a number of restrictions applicable to public officials during their term of office/service and following their release from public office/service and (iv) deems agreements, contracts or licenses that were entered into or obtained in breach of law to be void. The CIL imposes a number of obligations and prohibitions on public officials during their term of office and two years after stepping down from public office or public service. A public official must also file a private interest declaration, which shall be accessible to the public, within 30 days of appointment or election into office and annually (by February 15) during his/her term of office/service. The enactment of the CIL is a further step in Mongolia's fight against corruption.

On February 4, 2016, the CIL was amended to clarify disclosure obligations of public officials concerning conflict of interest and restrictions applicable to public officials in situations where conflict of interest arises.

On April 13, 2017, Parliament enacted further amendments to the CIL restricting public officials and their affiliated persons from opening accounts, depositing funds, owning movable and immovable property, and holding equity interests in legal entities in offshore jurisdictions. The Government approves the list of offshore jurisdictions to which the restrictions under the CIL apply. Those who already hold assets and property in offshore jurisdictions and later become elected or appointed officials must close the relevant accounts, withdraw deposited funds, sell or dispose property rights in movable and immovable property, or sell or transfer equity interests in legal entities in offshore jurisdictions within three months of his or her appointment and notify the IAAC regarding such action. Failure to comply with the aforementioned prohibition and restriction may serve as grounds for removal of the relevant public official from his or her office.

According to the IAAC, as of December 31, 2014, 38,423 public officials were required to submit their private interest and asset and income declarations. With respect to a small number of public officials who failed to make the submission, the IAAC requested each individual official's senior management to take disciplinary actions against them for non-compliance. In 2011, the IAAC identified 73 officials that had violated certain anti-corruption measures and 85 officials were charged with violating anti-corruption measures for the year 2012. According to the IAAC, 45 officials and 71 officials were charged during 2014 and 2015, respectively. The IAAC's enforcement measures include issuing warnings, reducing such officials' salaries and in some cases demoting such official to a lower position. Following the conclusion of an investigation, the IAAC delivers its recommendations to the Prosecutor General, who then decides whether to initiate criminal proceedings. The Head of the IAAC is nominated by the Prime Minister and appointed by the Parliament for a term of six years. In addition, the Deputy Head is nominated by the Head of the IAAC and appointed by the Parliament for a term of six years.

The Anti-Corruption Law was amended numerous times, with the latest amendment made on January 12, 2024.

Law of Mongolia on Combating Money Laundering and Terrorism Financing

The Law of Mongolia on Combating Money Laundering and Terrorism Financing ("AML Law") was adopted by Parliament on May 31, 2013, replacing similar legislation adopted in 2006. The purpose of the AML Law is to combat and prevent money laundering and terrorist financing by requiring Mongolian banks and certain other entities, including investment funds, real estate agencies and public notaries, to report "suspicious transactions" to the Financial Information Service (an affiliate organization of the Bank of Mongolia with the specific responsibility of combating money laundering and terrorist financing activities). Although not defined explicitly, a transaction that is suspected or is known to have any connection to money laundering, terrorist financing or income gained through a crime is considered a "suspicious transaction" and permits the Financial Information Service to suspend and investigate such transactions. The 2013 AML Law clarified definitions of politically exposed persons, ultimate beneficial owners and specially controlled transactions.

The AML Law imposes obligations on such financial institutions to have their customers verified with "know your customer" procedures. The AML Law introduced new concepts including politically exposed persons, "ultimate (beneficial) owner," and "shell banks." It also broadens the scope of the anti-money laundering activities by subjecting more institutions, such as public notaries, investment funds and real estate agencies, to the reporting obligations ("Reporting Entities"). By the amendments to the AML Law in 2020, 2021 and 2022 the Association of Mongolian Advocates, the Chamber of Notaries of Mongolia, financial advisory services, virtual asset service providers and legal entities engaged in money lending activities were added to the "Reporting Entities".

The AML Law created the Financial Information Service, a financial intelligence unit, at the Bank of Mongolia, which is mandated to collect and analyze information received from Reporting Entities and monitor implementation of the AML Law. Under the AML Law, Reporting Entities have an obligation to (i) verify customer information in certain circumstances, including prior to entering into monetary transactions, (ii) regularly report those transactions that exceed MNT20,000,000.0 (approximately US\$5,900), (iii) strictly and closely monitor those transactions that require increased scrutiny, such as transactions made by or on behalf of PEP, and (iv) develop and implement internal monitoring programs to ensure compliance with the AML Law.

Further, Mongolian banks are prohibited from opening accounts at so-called "shell banks" defined as banks whose executive management and operations are not physically present in the jurisdiction where it was licensed or registered, or banks that do not belong to financial institutions that are subject to specially regulated or central inspection, and are obliged to verify foreign banks prior to opening bank accounts.

On April 26, 2018 and January 17, 2020, Parliament approved comprehensive amendments to the AML Law for the purpose of improving the regulatory framework for combating money laundering and terrorism financing, respectively. Prior to the amendments, only banks, financial institutions, insurance

companies, investment funds, licensed securities market entities, and savings and credit cooperatives were required to report on transactions above MNT20.0 million to the Financial Information Service within five days after occurrence of such transaction. The amendments broadened the scope of Reporting Entities, to legal and business consulting service providers, investment funds, real estate agents, dealers in precious metals and stones, which now must undertake a client identification procedure and report the following transactions exceeding MNT20.0 million to the Financial Information Service:

- sale and purchase of immovable properties;
- management of client assets;
- establishment of legal entities, management of operation, transactions of the client or sale of legal entities;
- organization of a fund-raising or establishment of a company and its operations; and
- management of bank accounts, deposit or securities of the client.

The key features of the amendments include: (i) expanding the scope of combating and preventing terrorism financing to include combating and preventing weapon of mass destruction proliferation, (ii) clarifying definitions used in the law, (iii) expanding the scope of Reporting Entities by including investment management companies, law firms and accounting and financial advisory firms if such entities conduct certain transactions on behalf of clients, (iv) providing clear guidelines on determining beneficial owners, the know your customer procedure and internal monitoring procedure employed by Reporting Entities, (v) imposing additional obligations in respect of high-risk customers, and implementing sanctions lists issued by the United Nations Security Council and other relevant authorities.

The amendments also establish the National Council with a mandate to formulate national programs on combating money laundering and terrorism financing and submit such programs to the Government for approval and take measures to implement the approved programs. Further, the Governor of the Bank of Mongolia is tasked to approve regulations concerning specific matters related to combating money laundering and terrorism financing, which include procedure for determining beneficial owners, know your customer procedures and internal monitoring programs. The amendments aim to strengthen the existing regulatory and institutional framework for combating money laundering and terrorism financing and bring the AML Law in line with international best practices.

In compliance with the 40 Recommendations of the Financial Action Task Force, which is responsible for anti-money laundering measures and combating terrorism financing, Mongolia amended its Criminal Code to hold legal entities accountable under the Criminal Code. Accordingly, both individuals and legal entities may be subject to criminal prosecution under the Criminal Code, which was enacted on December 13, 2015 and took effect from July 1, 2017.

Furthermore, the Criminal Code defines money laundering as a criminal act of receipt, possession or use of assets, funds and cash sourced from criminal activities with the knowledge of its source or intention to change, transfer or hide the connection, source, location, or disposition method of assets, funds and cash sourced from criminal activities.

OTHER IMPORTANT LEGISLATION

Constitution of Mongolia

The Constitution of Mongolia has been subject to several amendments in recent years. The amendments introduced on November 14, 2019, (i) provided for the dissolution of parliament in case of failure to elect the prime minister, (ii) raised the threshold for establishing political parties, (iii) increased age for presidential candidacy and extended the presidential term of office, and (iv) established the Judicial Disciplinary Committee.

Amendment on August 25, 2022, removed the restriction allowing only up to four cabinet members (as well as the prime minister) to also be members of parliament.

A notable amendment on May 31, 2023, increased the number of parliamentary seats from 76 to 126 and introduced a mixed electoral system.

In connection with the amendments to the Constitution of Mongolia, major laws such as the Law on the State Great Hural, the Law on the Rules of Procedure of the State Great Hural, the Law on Presidential Elections, the Law on Parliamentary Elections, the Law on Administrative Territorial Units and the Law on Courts were also amended.

Law of Mongolia on Courts

Following the 2019 amendment to the Constitution of Mongolia, the Parliament enacted a revised Law of Mongolia on Courts (the “Law on Courts”) along with the implementation guidelines on January 15, 2021 with effect from March 1, 2021. The purpose of the revised Law on Courts is to regulate relations with respect to the structure, organization, operation of Mongolian courts, determining criteria and requirements for judges, their authority, legal status, ensuring impartiality of the judges, independency of the court, defining the legal status of court jury and setting out procedures for the authority, organization and functions of the Judicial General Council and Judicial Disciplinary Committee of Mongolia.

The procedures and requirements for the organization, composition and appointment of the Judicial General Council which is responsible for the selection of judges and ensuring independency of courts have been clarified upon adoption of the revised Law on Courts. The revised Law on Courts expressly provided 40 types of prohibited activities for judges in the exercise of their judicial functions and disciplinary measures against the judges including the statute of limitations, among others.

General Administrative Law of Mongolia

On June 19, 2015, Parliament enacted the General Administrative Law of Mongolia (“General Administrative Law”), which took effect on July 1, 2016. The purpose of this law is to reform the legal framework for regulating actions taken by administrative agencies or decisions, norms, actions, and agreements issued or taken by administrative agencies under public laws that affect citizens and legal entities. The law establishes procedures for the issuance of administrative decisions, acts, rules, and agreements. In addition, it establishes a mechanism for complaints against administrative actions for citizens and legal entities.

In connection with the enactment of the General Administrative Law, Parliament passed a revised Law on Administrative Procedure on February 4, 2016 which also took effect on July 1, 2016. The revised Law on Administrative Procedure provided further guidance on which administrative bodies and officials are subject to the jurisdiction of the administrative courts, introduced strategic or public interest litigation, and introduced special procedures for administrative acts or decisions with a broader or national impact and for disputes relating to elections and public procurement.

Law of Mongolia on Accounting

On June 19, 2015, Parliament enacted a revised Law on Accounting (“Accounting Law”) which came into effect from January 1, 2016, replacing the Accounting Law of 2001. The Accounting Law requires all business entities to adopt and adhere to international accounting standards and electronically submit semi-annual and annual financial statements and reports to the relevant financial department. A legal entity with one or more subsidiaries must submit a consolidated financial statement with its subsidiaries. Any legal entities and organizations must follow (i) IFRS, (ii) IFRS for SMEs, or (iii) International Public Sectors Account Standards. Under the revised law, all types and forms of legal entities and organizations must prepare their accounting records and financial statements in Mongolian and use Tugriks, unless it has agreed with the Ministry of Finance to record transactions in a foreign currency.

Mongolia has three accounting associations: the Accounting Council, the National Association of Certified Public Accountants and the Union of Finance Specialists Association.

Under the Accounting Law, the National Association of Certified Public Accountants is responsible for enacting accounting code of conduct, translating international accounting standards and its amendments, formulating national accounting standards and its interpretation, providing guidance to auditors, developing reporting methodology for legal entities, organizing trainings and revoking license of auditors and accountants for any breach of the code of conduct.

Law of Mongolia on Audit

On June 19, 2015, the revised Law on Audit (the “Revised Audit Law”) was enacted by Parliament, replacing the Audit Law of 1997. The law came into effect from January 1, 2016. The purpose of the law is to establish the principles of audit activities, clarify the scope of services that an auditor may offer to clients and amend the types of business entities that are required to have their financial reports audited. The law further regulates matters in relation to granting licenses to conduct auditing activities. The law aims to strengthen the independence and impartiality of auditors by prohibiting them from engaging with clients under certain circumstances. In addition, the Revised Audit Law stipulates shareholders’ right to demand reports from auditors in relation to financial reports, financial status and operational efficiency of the audited entity concerned.

Law of Mongolia on Arbitration

On January 26, 2017, Parliament adopted the revised Law on Arbitration (the “Revised Arbitration Law”). The Revised Arbitration Law is based on the UNCITRAL Model Law on International Commercial Arbitration including all 2006 amendments, for both international and domestic arbitration. The Revised Arbitration Law enacts the UNCITRAL Model Law fully, departing from its text only where necessary to do so in view of the particularities of the Mongolian legal system, and also seeks to implement certain innovations.

The major provisions introduced by the Revised Arbitration Law include the following:

- almost all civil disputes may be adjudicated by arbitration, subject to (i) certain disputes which fall within the exclusive jurisdiction of the Mongolian courts, and (ii) certain consumer protection mechanisms;
- the scope of intervention by the court is narrowed, and designed to promote and support the arbitral process;
- for international arbitration, many court functions, including all applications to set aside arbitral awards, fall under the exclusive competency of the appellate court of the capital city;
- the Revised Arbitration Law does not establish or advocate the use of any particular arbitration institution and the parties remain free to choose;
- in accordance with the 2006 amendments to the UNCITRAL Model Law, an arbitration agreement must be in writing to be valid, but this requirement will be satisfied if the arbitration agreement is recorded in any form such as electronic communication;
- the Revised Arbitration Law cements the impartiality and independence of arbitrators, and an arbitrator may be challenged only if circumstances exist which give rise to justifiable doubts as to impartiality or independence;
- the arbitral tribunal can rule on its own jurisdiction in consistency with the internationally accepted principle of kompetenz-kompetenz;
- a party may seek recourse to the designated appellate court in relation to an arbitral tribunal’s decision to uphold or decline its jurisdiction. The court decision will not be subject to appeal;

- the arbitral tribunal is vested with broad power to grant interim measures and preliminary orders; and
- unless otherwise agreed by the parties, the arbitral tribunal has discretion to decide and allocate costs.

Law of Mongolia on National Payment System

The Law on National Payment System was approved on May 31, 2017. The law came into effect from January 1, 2018 and regulates matters related to management, organization, regulation and supervision of the national payment system of Mongolia by the Bank of Mongolia. The law also sets out licensing requirements for certain payment related services. Specifically, the Bank of Mongolia issues licenses for authorizing the following activities, among others: providing payment services, providing services related to payment services, issuing payment instruments, acting as payment agent, issuing electronic money and conducting money transfer services.

Law of Mongolia on Non-Banking Financial Activities

The Law of Mongolia on Non-Banking Financial Activities, enacted by the Parliament on December 12, 2002, allows non-bank financial institutions to engage in lending, foreign currency exchanges, electronic payments, remittance services, issuing of guarantees and payment instruments, investments in short-term financial instruments, trust services and financial and investment consultancy services. These activities must be licensed separately and are subject to prudential regulations by the FRC. Non-banking financial institutions are not permitted to accept deposits.

Law of Mongolia on Executing Payment Transactions by National Currency

The Mongolian Parliament enacted the Law on Executing Payment Transactions by National Currency (the “Payment Law”) on July 9, 2009 to control fluctuations as a response to depreciation of the Tugrik. According to the Payment Law, payment and settlement within the territory of Mongolia must be conducted in Tugriks, which prohibits the use of foreign currencies for domestic transactions. The Payment Law also prohibits indexing Mongolian Tugrik contracts to any foreign exchange index. However, the Payment Law allows deposits in banks, loans from banks and non-bank entities, other equivalent services, and derivative financial agreements and their obligations to be expressed and executed in foreign currencies.

Law of Mongolia on Mortgages

The Law of Mongolia on Mortgages, enacted by the Parliament on July 9, 2009, regulates pledges of immovable property and property rights to secure performance of obligations, conclusion of immovable property pledge agreements, and performance of the obligations thereto. Under this law, pledgors and pledgees may agree upon non-judicial foreclosure of immovable properties in writing. However, a proceeding relating to the foreclosure of a pledged land is required to be brought before the courts of Mongolia, unless the parties agree to settle the dispute and a court issues a decree accepting the settlement. Furthermore, pledged land or immovable property of historical or cultural value registered with the state registry may only be foreclosed through judicial proceedings. The Law of Mongolia on Mortgages introduced the concept of “pledge certificates” whereby the pledgor prepares a pledge certificate, which certifies the rights of the pledgee, to be submitted to the state registry along with the pledge agreement. On July 2, 2015, Parliament approved the Amendment Law to the Law of Mongolia on Mortgages, which requires immovable property foreclosed through judicial proceedings to be sold by auction in accordance with the procedures provided in the Civil Code of Mongolia and the Law of Mongolia on Enforcement of Court Decisions.

On December 9, 2015, the Constitutional Court of Mongolia held that certain provisions of the Law of Mongolia on Mortgages and the Civil Code of Mongolia conflicted with the immovable property ownership rights of citizens under the Constitution of Mongolia. Consequently, the Constitutional Court invalidated the requirement for a pledgor to obtain consent from the pledgee for the disposition, second mortgage or lease of pledged property. After this decision was issued, Mongolian commercial banks suspended the issuance of new mortgage loans.

In response to the Constitutional Court ruling in December 2015, and in order to protect the interests of secured lenders, Parliament amended the Civil Code of Mongolia and the Law of Mongolia on Mortgages on January 19, 2016 re-instating the requirement for an owner or a pledgor to obtain the obligee's or pledgee's consent before transferring ownership of pledged immovable property. Commercial banks have since resumed their issuance of mortgage loans.

On December 7, 2017, the Constitutional Court invalidated the reinstated provisions and held that the amendments to the Law of Mongolia on Mortgages and the Civil Code of Mongolia had effectively re-instated the provision which had been invalidated previously and was against the ownership rights of citizens over their immovable property under the Constitution of Mongolia.

Furthermore, the law stipulates separate regulations on pledge of land and apartments.

Law of Mongolia on Asset-Backed Securities

The Law of Mongolia on Asset-Backed Securities, enacted by the Parliament on April 23, 2010, regulates the issuance of asset-backed securities, supervision thereof, and protects the interests of the investors. The law provides that only special purpose vehicles ("SPVs"), banks and housing finance companies may issue asset-backed securities that are classified as (i) "collateralized bonds" issued by SPVs, and (ii) "securitized bonds" issued by banks and housing financing companies. The issuance of asset-backed securities requires a specific license granted by the FRC and the asset-backed securities must be registered with the FRC prior to issuance.

Law of Mongolia on Transparency of Public Information

The Law of Mongolia on Transparency of Public Information was enacted by the Parliament on December 12, 2021. Its objective is to ensure the right of citizens to seek and receive information in accordance with the grounds and procedures outlined in the law, and to establish the legal basis of public information infrastructure, conduct state activities in an electronic form by creating a public information system, and to establish public supervision over government activities. The Law of Mongolia on Transparency of Public Information applies to information holders such as public authorities, state or local government owned companies, entities performing certain functions of public authorities on the basis of law or contract, public radio and television, and political parties. According to this Law, the information on functions, operational strategy and organization of information holders, their human resources, budget, finance, procurement, and information on services provided, and information other than restricted by law must be transparent and accessible. The transparency of such information is regulated by the Law on Transparency of Public Accounts (Glass Account Law) passed in 2014.

Law of Mongolia on Value-Added Tax

The Law of Mongolia on Value-Added Tax was revised on July 9, 2015 and came into effect on January 1, 2016. In addition to introducing key terminology and broadening the types of goods, work and services subject to value-added tax (VAT), the law increased the threshold of the requirement to register as a VAT payer from MNT10.0 million to MNT50.0 million of sales in an effort to support SME enterprises. The existing VAT rate of 10.0% remains the same; however, there have been some changes in the types of goods, work and services that are exempted from VAT.

This law was intended to incentivize taxpayers by allowing the taxpayers to recover up to 20.0% of the tax amount, subject to certain conditions. It further attempts to improve the system and procedures for collecting, processing and reporting data relating to the VAT payment by creating a consolidated registration system. The law was further revised on December 18, 2015 to exempt equipment for renewable energy research and production from VAT.

In addition, this law was last amended on May 14, 2020 to exempt "registration, issuance, trading, transfer, sale, receipt, storage and guarantee of financial instruments specified in Article 4.1.6 of the Law of Mongolia on the Securities Market in the primary, secondary and over-the-country market" from VAT. Article 4.1.6 of the Law of Mongolia on the Securities Market specifies that "financial instrument means a security, a derivative financial instrument, or such other financial instrument approved for trade in the monetary or the regulated market."

Law of Mongolia on Credit Information

The Law of Mongolia on Credit Information was enacted by the Parliament on October 20, 2011 and became effective on January 1, 2012. The Law of Mongolia on Credit Information governs private credit information agencies and the credit information database managed by the Bank of Mongolia. Any legal entity may apply to the Bank of Mongolia for a license and become an authorized credit information agency. Such agencies are authorized to provide up to six years of credit information in respect of a borrower.

The Law of Mongolia on Credit Information governs the maintenance of credit information databases and disclosure of credit information, and regulates private credit information agencies. It also governs method of collection of credit information; the manner in which credit histories are prepared, distributed, protected and used; made accessible to consumers. Transmission of credit information outside of Mongolia without prior authorization of the Bank of Mongolia is prohibited.

Law of Mongolia on Electronic Signature

The Law of Mongolia on Electronic Signature was enacted by the Parliament on December 17, 2021. The purpose of this law is to regulate the use of electronic signatures for information that was transferred in electronic form using the information system or created, sent, received, stored, or accessible in the electronic environment. An electronic signature has been broadly defined as electronic data that has been attached to or combined with electronic information or documents to identify a person who signed on them or used an electronic seal. Electronic signatures can be in any form, including digital signatures.

Generally, under the law, any person who reached the age of 16 years can use a digital signature based on the certificate issued by the authorized and licensed entity. Subject to further extension, the certificate is valid for five years for Mongolian citizens and legal entities, and up to three years for foreign citizens and stateless persons. The digital signature to be issued to legal entities are in the form of an electronic seal.

Law of Mongolia on Credit Guarantee Fund

The Law of Mongolia on Credit Guarantee Fund, enacted by the Parliament on February 10, 2012, regulates matters relating to increasing financial possibilities for the operations of SME and supporting the employment market; establishing legal foundations of the Credit Guarantee Fund with the purpose of securing sustainable income generation for the citizens; and providing credit guarantee services for the entrepreneurs of small and medium enterprises. Activities of such statutory credit guarantee institution, among other things, will include providing credit guarantee up to 60% of the total loan of those small and medium enterprises which do not have adequate assets for the loan security. This law was last amended on November 12, 2021.

Law of Mongolia on Investment Funds

The Law of Mongolia on Investment Funds was enacted by the Parliament on October 3, 2013. This law regulates the licensing and operation of the investment funds and trust arrangement and their assets and investor relations. The Law of Mongolia on Investment Funds categorizes investment funds into joint (public) and private funds. The investment fund can only be established by a legal entity that is licensed to conduct investment advisory services by entering into a service contract with a custodian.

Law of Mongolia on Pledge of Movable and Intangible Property

On July 2, 2015, Parliament ratified the Law of Mongolia on Pledge of Movable and Intangible Property (the “Movables Pledge Law”) to regulate the rights and legal interests of the parties, increase economic efficiency and to ease access to new financial resources.

Key provisions of the Movables Pledge Law provide as follows:

- security interests must be created by written contract;
- pledged property may either be transferred to the pledgee's possession or may be retained by the pledgor;
- pledge or security interests are perfected upon control of the property or through the filing of the pledge interest with the relevant electronic registration site run by the state registration authority;
- perfected security interests will have priority over non-perfected security interests regardless of the date when the security interest was first created;
- merchants who sell equipment or vehicles on a loan basis will have priority over any other perfected security interests on the sold equipment or vehicle if the merchant perfects its security interest within 10 days of the sale;
- if bankruptcy proceedings are initiated against the pledgor, the pledgee with the perfected security interest is entitled to payment from the proceeds of the perfected security interest on a first priority basis. Amounts remaining from the proceeds after such payment will be placed into a general pool of funds for debtors;
- if bankruptcy proceedings are initiated against the pledgor and the perfected security interest's proceeds are insufficient to satisfy the payments due to the pledgee, the remaining amount due must be claimed through bankruptcy procedures under the applicable bankruptcy legislation;
- the General Authority for State Registration will be responsible for implementing the electronic filing system of pledges on movable and intangible property;
- any filing of pledges will be effective when it becomes viewable by the general public;
- a filing will be valid for three years unless extended;
- if the pledgor defaults on its obligations under the pledge agreement, the pledgee must first notify the pledgor or any other obligor regarding its intent to enforce the pledge, and unless otherwise stated in the pledge agreement, the pledgee must wait 14 days for the pledgor to remedy the default;
- the pledgee must use cost efficient, fair and reasonable methods in enforcing its pledge interest;
- the pledgor has the right to repurchase the pledged property or fulfill its obligations under the pledge agreement at any given time except for the final sale of the property by the pledgee; and
- the purchaser of pledged property becomes an owner free of any encumbrances.

The Movables Pledge Law came into effect on March 1, 2017. The law introduces the perfection mechanism for the movables pledge by way of (i) possessory security, or (ii) registration of the pledge with the online database maintained by the General Authority for State Registration. The online database, which can be accessed at <http://mpr.gov.mn/>, aims to notify the public of the existence of pledges over both movable and intangible properties and to establish the priority among security interests.

Under the Movables Pledge Law, it is the pledgee or its designated person's obligation to register the security interest. Such registration takes place through filing a "security notice" with the registration authority. The registration of movables pledges remains valid for three years unless extended. If the security notice has not been extended by the pledgee at the end of the third year, such security interest would not be considered as perfected.

The ranking of the claims of multiple creditors relating to the collateral will be determined by the date of perfection. A perfected pledge will rank senior to a non-perfected pledge over the same collateral. The ranking among non-perfected pledges will be determined on the basis of the date of the relevant pledge agreements.

Law of Mongolia on the Future Heritage Fund

Under the Law of Mongolia on the Future Heritage Fund, approved by the Parliament on February 5, 2016, a fund for the benefit of current and future generations will be created and financed from a certain portion of the taxes imposed on the mining sector (the “Fund”). The Fund will be managed by the Future Heritage Corporation, a wholly state-owned entity, from 2025 in line with an investment mandate approved by the Prime Minister and an investment strategy approved by the board of directors of the Future Heritage Corporation. The law provides that no withdrawals, other than with respect to the operational costs of the Future Heritage Corporation, will be made from the Fund until 2030, and investments may only be made into portfolios outside of Mongolia.

Law of Mongolia on Enforcement of Court Decisions

The revised version of the Law on Enforcement of Court Decisions was approved by the Parliament on June 9, 2017 and came into force on July 1, 2017 replacing the previous law of 2002 on the same subject matter. The law regulates matters related to the grounds for and regulations of court enforcement activities as well as the structure and legal status of the bailiff’s office. The law aims to improve the efficiency of court enforcement and restoring those rights of citizens that were breached as well as to strengthen the operational efficiency of bailiff’s office.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following is a summary of the terms of our material indebtedness. The following summary does not purport to be complete. Please refer to our financial statements and the notes thereto included elsewhere in this Offering Memorandum for additional information with respect to such indebtedness.

BORROWINGS

World Business Capital Inc

On September 14, 2017, we entered into a credit agreement with World Business Capital Inc for a total principal amount of US\$7,500,000. The loan will mature on September 20, 2025. The loan bears interest at a rate SOFR 3M+5.26% per annum, payable on a quarterly basis. The loan contains certain covenants, restricting us from, among other things, creating any subsidiaries, acquiring any shares provided that we notify the lender promptly and remain in compliance with certain financial ratios. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$1,609,500.

On July 19, 2021, we entered into a credit agreement with World Business Capital Inc for a total principal amount of US\$7,500,000. The loan will mature on September 20, 2025. The loan bears interest at a rate SOFR 3M+3.26% per annum, payable on a quarterly basis. The loan contains certain covenants, restricting us from, among other things, creating any subsidiaries, acquiring any shares provided that we notify the lender promptly and remain in compliance with certain financial ratios. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$2,647,059.

EMF

On June 17, 2021, we entered into a loan agreement with EMF Microfinance Fund AGMVK for a total principal amount of US\$5,000,000. The loan will mature on June 21, 2024. The loan bears interest at a rate 5% per annum, payable on a semi-annual basis. The loan contains customary covenants. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$1,250,000.

On April 18, 2022, we entered into a loan agreement with EMF Microfinance Fund AGMVK for a total principal amount of US\$5,000,000. The loan will mature on April 22, 2026. The loan bears interest at a rate 5% per annum, payable on a semi-annual basis. The agreement contains customary covenants. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$4,150,000.

On March 27, 2023, we entered into a loan agreement with EMF Microfinance Fund AGMVK for a total principal amount of US\$5,000,000. The loan will mature on March 30, 2026. The loan bears interest at a rate 7.5% per annum, payable on a semi-annual basis. The agreement contains certain customary covenants. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$5,000,000.

On November 15, 2023, we entered into a loan agreement with EMF Microfinance Fund AGMVK for a total principal amount of US\$5,000,000. The loan will mature on November 17, 2026. The loan bears interest at a rate 8% per annum, payable on a semi-annual. The agreement contains certain customary covenants. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$5,000,000.

Symbiotics

On December 21, 2021, we entered into a term loan facility agreement with Micro, Small & Medium Enterprises Bonds S.A. for a total principal amount of US\$8,000,000. The loan will mature on December 23, 2024. The loan includes customary negative pledge clause, which requires us to maintain certain percentage of unencumbered assets. The loan bears interest at a rate 5% per annum, payable on a semi-annual basis. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$8,000,000.

On June 23, 2022, we entered into a loan agreement with Micro, Small & Medium Enterprises Bonds S.A. for a total principal amount of US\$7,750,000. The loan will mature on June 24, 2025. The loan bears interest at a rate SOFR 6M+4.25% per annum, payable on a semi-annual basis. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$7,750,000.

ResponsAbility

On September 18, 2023, we entered into a loan agreement with ResponsAbility Investments AG for a total amount of US\$5,000,000. The loan will mature on September 21, 2026. The loan bears interest at a rate SOFR 6M+4.6% per annum, payable on a semi-annual basis. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$5,000,000.

On September 18, 2023, we entered into three separate loan agreements with ResponsAbility Investments AG for a total amount of US\$10,000,000. Each loan will mature on September 9, 2026. Each loan bears interest at a rate SOFR 6M+4.6% per annum, payable on a semi-annual basis. As of the date of this Offering Memorandum, the outstanding aggregate principal amount under loan agreements is \$10,000,000.

WaterEquity

On September 21, 2023, we entered into a loan agreement with Global Access Fund IV, LP for a total principal amount of US\$5,000,000. The loan will mature on September 30, 2026. The loan bears interest at a rate SOFR 6M+ 3.7%, payable on a quarterly basis. The agreement requires us to notify lenders if we borrow funds, give guarantees or assume liabilities. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$5,000,000.

GCPF

On October 27, 2023, we entered into a senior unsecured facilities agreement with Global Climate Partnership Fund S.A., SICAV-SIF for a total amount of US\$10,000,000. The loan will mature on November 24, 2028. The loan bears interest at a rate SOFR 6M+4.6% per annum, payable on a semi-annual basis. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$10,000,000.

MEF

On December 4, 2023, we entered into a loan agreement with Microfinance Enhancement Facility SA, SICAV-SIF for a total amount of US\$5,000,000. The loan will mature on November 15, 2026. The loan bears interest at a rate SOFR 6M+4.6% per annum, payable on a semi-annual basis. The agreement contains a customary negative pledge clause. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$5,000,000.

Cargill

On November 22, 2023, we entered into a letter of credit with Cargill International Trading Pte. Ltd. for a total principal amount of US\$9,614,999.42. The letter of credit will mature on December 16, 2024. The letter of credit bears interest at a rate SOFR 12m+4.75% per annum, payable upfront. As of the date of this Offering Memorandum, the outstanding principal amount under the facility is US\$9,614,999.42.

Agents for Impact

On February 9, 2024, we entered into a loan agreement with HANSAINVEST Finance I GmbH & Co. geschlossene Investmentkommanditgesellschaft for a total principal amount of US\$10,000,000. The loan will mature on February 12, 2027. The loan bears interest at a rate SOFR 6mL+4.55% per annum, payable on a semi-annual basis. The agreement requires us to notify the lender upon certain events. As of the date of this offering memorandum, the outstanding principal amount under such facility is US\$10,000,000.

SMBC

On June 11, 2020, we entered into a term loan facility agreement with Sumitomo Mitsui Banking Corporation for a total principal amount of US\$100,000,000. The loan will mature on June 16, 2025. The loan bears interest at a rate 1.47% per annum, payable on a semi-annual basis. The loan contains a customary negative pledge covenant. As of the date of this offering memorandum, the outstanding principal amount under the facility is US\$100,000,000.

Saison Investment Management Private Limited

On April 3, 2024, we entered into a loan agreement with Saison Investment Management Private Limited for a total principal amount of US\$7,000,000. The loan will mature on December 31, 2026. The loan bears interest at a rate of SOFR 3ML+4.5%, payable on a quarterly basis. As of the date of this Offering Memorandum, the outstanding principal amount under this loan is US\$7,000,000.

GUARANTEES

Guarantee facility under IFC Global Trade Finance Program

On August 31, 2016, we entered into an agreement with International Finance Corporation (“IFC”), pursuant to which IFC may, from time to time and at its discretion issue IFC guarantees in favor of confirming banks in support of the payment obligations of the Bank arising under eligible instruments issued or to be issued by the Bank in connection with exports and imports by our customers. The agreement requires us to comply with certain financial covenants and ratios. In 2023, we breached certain economic group exposure limits required under the agreement. On December 13, 2023, the IFC has temporarily waived compliance with these provisions during the period beginning on December 1, 2023 and ending on May 30, 2025 provided that we maintain economic group exposure ratio of a maximum of certain percentage. As of the date of this Offering Memorandum, the outstanding principal amount issued by IFC in favor of the Bank under this program is US\$2,152,728.67.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Issuer” refers to Golomt Bank JSC, a company incorporated under the laws of Mongolia with limited liability, and any successor obligor on the Notes, and not to any of its Subsidiaries. On the Original Issue Date, the Issuer has no Subsidiaries. The Notes are to be issued under an indenture (the “Indenture”) to be dated as of the Original Issue Date, between the Issuer and Deutsche Bank Trust Company Americas, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture and the Notes. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture and the Notes. It does not restate the provisions of the Indenture or the Notes in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available for inspection on or after the Original Issue Date during normal office hours at the corporate trust office of the Trustee at 1 Columbus Circle, 17th Floor, New York, NY 10019, United States of America.

BRIEF DESCRIPTION OF THE NOTES

The Notes will:

- (a) be direct, unsecured and unsubordinated obligations of the Issuer;
- (b) be senior in right of payment to any existing and future obligations of the Issuer expressly subordinated in right of payment to the Notes;
- (c) rank at least *pari passu* in right of payment with all other unsecured and unsubordinated Debt of the Issuer (subject to any priority rights of such unsubordinated Debt pursuant to applicable law); and
- (d) be effectively subordinated to secured obligations of the Issuer and the obligations of its subsidiaries, to the extent of the value of the assets serving as security therefor.

The Issuer will initially issue US\$300,000,000 in aggregate principal amount of the Notes, which will mature on May 20, 2027 unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows the Issuer to issue additional Notes from time to time (the “Additional Notes”), subject to certain limitations described under “— *Further Issues*” and applicable law. The Notes offered hereby and any Additional Notes may be treated as a single class for all purposes under the Indenture; *provided, however*, that if such Additional Notes are not fungible with the Notes for U.S. federal income tax purposes, the Additional Notes will have a separate CUSIP number.

Interest

The Notes will bear interest at 11.0% per annum from the Original Issue Date or from the most recent interest payment date on which interest has been paid or duly provided for, payable semi-annually in arrears on May 20 and November 20 of each year (each, an “Interest Payment Date”) commencing November 20, 2024. Interest on the Notes will be paid to Holders of record at the close of business on each May 5 or November 5 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Payment of Notes

In any case in which the date of the payment of principal of, premium, if any, or interest on the Notes (including any payment to be made on any date fixed for redemption or purchase of any Note) is not a Business Day in the relevant place of payment, then payment of principal, premium, if any, or interest need

not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day will have the same force and effect as if made on the date on which such payment is due. Interest on overdue principal and interest and Additional Amounts, if any, will accrue at a rate that is 1.0% higher than the then applicable interest rate on the Notes.

The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. See “— *Book-Entry; Delivery and Form.*” No service charge will be made for any registration of transfer or exchange of Notes, but the Issuer may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars in immediately available funds by the Issuer at the office or agency of the Issuer maintained for that purpose in the Borough of Manhattan, the City of New York (which initially will be the specified office of Deutsche Bank Trust Company Americas (the “Paying Agent”), currently located at 1 Columbus Circle, 17th Floor, New York, NY 10019, United States of America), and the Notes may be presented for registration of transfer or exchange at such office or agency. However, at the option of the Issuer, payment of interest may be made by wire transfer. The securities custody account of DTC participants (as defined herein) will be credited with their holdings against payment in same day funds on the DTC settlement date. However, because of time zone differences, credits of Notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the Business Day following the DTC settlement date. See “— *The Clearing Systems.*”

FURTHER ISSUES

Subject to the covenants described below and in accordance with the terms of the Indenture, the Issuer may, from time to time, without notice to or the consent of the Holders, issue Additional Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, issue price and the date of first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that in order for Additional Notes to have the same CUSIP, ISIN, or other identifying number as the outstanding Notes, the Additional Notes must be fungible with the outstanding Notes for U.S. federal income tax purposes.

In addition, the issuance of any Additional Notes by the Issuer will be subject to the following conditions:

- (a) the Issuer shall have delivered to the Trustee an Officers’ Certificate confirming that the issuance of the Additional Notes complies with the Indenture; and
- (b) the Issuer shall have delivered to the Trustee one or more Opinions of Counsel confirming, among other things, (i) that the issuance of the Additional Notes does not conflict with applicable law and (ii) that such Additional Notes will constitute legally valid and binding obligations of the Issuer, enforceable in accordance with their terms, subject to customary exceptions.

PURCHASES

The Issuer and its Affiliates may at any time and from time to time purchase Notes in the open market or otherwise at any price, subject to applicable law. Such Notes may, at the option of the Issuer or the relevant Affiliate, be held or surrendered to the Registrar for cancellation. The Notes so purchased, while held by or on behalf of the Issuer or any of its Subsidiaries, shall not entitle the Issuer or any of its Affiliates to vote at any meeting of Holders and shall not be deemed to be outstanding for the purposes of determining Notes entitled to consent or vote to amendments, waivers and other matters under the Indenture.

CANCELLATION

All Notes purchased by the Issuer or any of its Subsidiaries may be cancelled at the discretion of the Issuer. Notes may be surrendered for cancellation by surrendering each such Note to the Registrar and if so surrendered shall be cancelled forthwith (and may not be reissued or resold) and the obligations of the Issuer in respect of any such Note shall be discharged.

SINKING FUND

There will be no sinking fund payments for the Notes.

ADDITIONAL AMOUNTS

All payments of principal of, and premium, if any, and interest on the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Issuer or the Surviving Person (as defined under “— *Consolidation, Merger and Sale of Assets*”) is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) or through which payment is made on behalf of the Issuer or the Surviving Person (each, as applicable, a “Relevant Taxing Jurisdiction”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law.

In such event, the Issuer or the Surviving Person, as the case may be, will make or cause to be made such deduction or withholding, make payment of the amount so deducted or withheld to the appropriate governmental authority and will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of such amounts as would have been received by such Holder had no such withholding or deduction been required. However, no Additional Amounts will be payable:

(a) for or on account of:

(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(A) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Taxing Jurisdiction including, without limitation, such Holder’s or beneficial owner’s being or having been a citizen or resident of such Relevant Taxing Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein, other than merely holding such Note or the receipt of payments thereunder or enforcing payment under the Note;

(B) the presentation of such Note (where presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, or interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;

(C) the failure of the Holder or beneficial owner to comply with a timely request of the Issuer or the Surviving Person, as the case may be, addressed to the Holder, to provide information to the Issuer or the Surviving Person on any document or form concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Taxing Jurisdiction, if and to the extent that due and timely compliance with such request is required under the laws of a Relevant Taxing Jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or

- (D) the presentation of such Note (where presentation is required) for payment by or on behalf of a Holder or beneficial owner who would have been able to avoid such tax, duty, assessment or other governmental charge by presenting the Note for payment elsewhere;
 - (ii) any estate, inheritance, gift, sale, transfer or similar tax, assessment or other governmental charge;
 - (iii) any tax, duty, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of or interest or any premium on the Note; or
 - (iv) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding paragraphs (i), (ii) and (iii); or
- (b) with respect to any payment of the principal of, or premium, if any, or interest on, such Note to such Holder, if the Holder is a fiduciary, corporation, limited liability company, partnership or person other than the sole beneficial owner of any payment to the extent that, under the laws of a Relevant Taxing Jurisdiction, such payment would be required to be included in income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a shareholder of that corporation, a member of that partnership or limited liability company or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, shareholder, partner, or beneficial owner been the Holder thereof; or
- (c) any combination of paragraphs (a) and (b).

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all beneficial owners of Notes.

Whenever there is mentioned in any context the payment of principal, premium or interest in respect of any Note, such mention will be deemed to include payments of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Paying Agent and the Trustee will make payments free of withholdings or deductions on account of taxes unless required by applicable law. If such a deduction or withholding is required, the Paying Agent or the Trustee will not be obligated to pay any Additional Amount to the recipient unless such an Additional Amount is received by the Paying Agent or the Trustee.

In addition to the foregoing, the Issuer or the Surviving Person, as the case may be, will also pay and indemnify the Holder or beneficial owner, as applicable, for any present or future stamp, issue, registration, court or documentary taxes, or any other excise or property taxes, charges or similar levies (including penalties and interest) which are levied by any jurisdiction on the execution, delivery, issuance, registration, redemption or retirement of any of the Notes or the Indenture or any other document referred to therein (other than a transfer of the Notes after this offering) or any such taxes, charges or similar levies imposed by the United States of America, Mongolia, or any political subdivision thereof as a result of, or in connection with, the enforcement of any of the Notes.

REDEMPTION FOR TAXATION REASONS

The Notes may be redeemed at the option of the Issuer or the Surviving Person, as the case may be, as a whole but not in part, by giving not less than 30 days' nor more than 60 days' notice to the Holders (which notice will be irrevocable), the Trustee and the Paying Agent, at a redemption price equal to 100.0% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to (but not including) the date fixed by the Issuer or the Surviving Person, as the case may be, for redemption, if the Issuer or the Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by taking reasonable measures (including an appointment of a new paying agent) by the Issuer or the Surviving Person, as the case may be, as a result of:

- (a) any change in, or amendment to, the laws or any regulations or rulings promulgated thereunder of a Relevant Taxing Jurisdiction affecting taxation; or
- (b) any change in, or amendment to, an official position regarding the application, administration or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice),

which change or amendment is announced and becomes effective on or after the Original Issue Date with respect to any payment due or to become due under the Notes or the Indenture (or, if the Relevant Taxing Jurisdiction was not a Relevant Taxing Jurisdiction on the Original Issue Date, the date on which such jurisdiction became a Relevant Taxing Jurisdiction under the Indenture).

Notwithstanding the above, no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Issuer or the Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the delivery of any notice of redemption of the Notes pursuant to the foregoing, the Issuer or a Surviving Person, as the case may be, will deliver to the Trustee:

- (a) an Officers' Certificate stating that such change or amendment referred to in the first paragraph of this section "Redemption for Taxation Reasons" has occurred, and describing the facts related thereto and stating that such requirement cannot be avoided by the Issuer or such Surviving Person, as the case may be, taking reasonable measures available to it; and
- (b) an Opinion of Counsel of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction stating that the requirement to pay such Additional Amounts, and withhold or deduct such taxes, duties, assessments or other government charges results from such change or amendment referred to in the prior paragraph.

The Trustee and the Agents shall be entitled to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above without further verification, and it will be conclusive and binding on the Holders. The Trustee will not be responsible for any loss occasioned by acting in reliance on such certificate and opinion. The Trustee is not obligated to investigate or verify any information in such certificate and opinion.

Any Notes that are redeemed will be cancelled.

CERTAIN COVENANTS

Set forth below are summaries of certain covenants contained in the Indenture.

Negative Pledge

The Issuer shall not, and shall procure that none of its Subsidiaries will, create or have outstanding any Lien upon, or with respect to, any part of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any Subsidiary to secure any Relevant Debt, unless the Issuer, in the case of the creation of a Lien, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (a) all amounts payable by it under the Notes and the Indenture are secured by such Lien equally and rateably with the Relevant Debt; or
- (b) such other Lien or other arrangement (whether or not it includes the granting of a Lien) is provided either (i) as the Issuer in its absolute discretion deems to be not materially less beneficial to the interests of the holders of the Notes or (ii) as may be consented to by the holders of a majority in aggregate principal amount of the outstanding Notes.

Regulatory Compliance

So long as any of the Notes remain outstanding, the Issuer shall not permit its:

- (a) Tier-1 Capital Ratio to fall below the minimum percentage;
- (b) Capital Adequacy Ratio to fall below the minimum percentage; and
- (c) Liquidity Ratio to fall below the minimum percentage;

each as set by the Central Bank of Mongolia.

Restricted Payments

The Issuer shall not, and shall not permit any of its Subsidiaries, directly or indirectly, to make a Restricted Payment, unless at the time of, and after giving effect to such Restricted Payment:

- (a) no Event of Default shall have occurred and be continuing (or would result therefrom); and
- (b) the aggregate amount of such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer after the Original Issue Date, would not exceed the sum, without duplication, of:
 - (i) 50.0% of the Issuer's Consolidated Net Income (or if the Consolidated Net Income is a loss, minus 100.0% of such loss), accrued in the period beginning on the first day of the fiscal quarter beginning on January 1, 2024 and ending on the last day of the most recent fiscal quarter for which internal financial statements prepared in conformity with IFRS are available prior to the date of such proposed Restricted Payment, *plus*;
 - (ii) 100.0% of the aggregate net cash proceeds received by the Issuer subsequent to the Original Issue Date as a contribution to its ordinary share capital from the issue or sale of its Capital Stock (other than Disqualified Stock), *plus*;
 - (iii) the amount of reduction in indebtedness of the Issuer that has been converted into or exchanged for Capital Stock (other than Disqualified Stock) of the Issuer subsequent to the Original Issue Date; *plus*
 - (iv) US\$1,000,000.

The foregoing provisions will not prohibit any purchase or redemption of Subordinated Obligations of the Issuer made by exchange for, or out of the proceeds of the substantially concurrent sale of, Subordinated Obligations of the Issuer that qualify as Refinancing Debt; *provided however* that such purchase or redemption will be excluded in subsequent calculations of the amount of Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the assets or securities proposed to be transferred or issued pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or of any such assets or securities must be based upon a fairness opinion or appraisal issued by an appraisal or investment banking firm of national standing.

Not later than the date of making any Restricted Payment (or the Dollar Equivalent thereof), the Issuer will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this covenant were computed, together with a copy of any fairness opinion or appraisal required pursuant to the immediately preceding paragraph.

Affiliate Transactions

The Issuer shall not, and will not permit any of its Subsidiaries to, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, lease or exchange of any asset or the rendering of any service) with, or for the benefit of, any Affiliate of the Issuer or such Subsidiary (an "Affiliate Transaction") involving aggregate payments or consideration in excess of US\$1,000,000 (or its Dollar Equivalent), unless:

- (a) the terms of the Affiliate Transaction are no less favorable to the Issuer or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in a comparable arm's-length transaction with a Person who is not an Affiliate of the Issuer or such Subsidiary; and
- (b) the Issuer delivers to the Trustee with respect to any Affiliate Transaction, or series of related Affiliate Transactions, a resolution of the Issuer's Board of Directors (in the English language) along with an Officer's Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Issuer's Board of Directors or such Subsidiary's Board of Directors (or, in the event there is only one disinterested member of the Issuer's or Subsidiary's Board of Directors, approved by such disinterested member); *provided, however*, that the provisions of paragraphs (a) and (b) in this covenant shall not apply to:
 - (i) any employment agreement, employee compensation arrangements, consulting agreement, employee benefit plan, officer and director indemnification agreement or any similar arrangement entered into by the Issuer or any of its Subsidiaries in the ordinary course of business and compensation (including bonuses and equity compensation) paid to and other benefits (including retirement, health and other benefit plans) and indemnification arrangements provided on behalf of directors, officers, consultants and employees of the Issuer or any of its Subsidiaries;
 - (ii) transactions between or among or solely for the benefit of the Issuer and/or its Subsidiaries;
 - (iii) any issuance of Capital Stock of the Issuer to Affiliates of the Issuer or the receipt of capital contributions by the Issuer from Affiliates of the Issuer;
 - (iv) Restricted Payments permitted to be made under "*— Restricted Payments*"; and

- (v) agreements and arrangements, and transactions pursuant thereto, existing on the Original Issue Date and as described in the Offering Memorandum, and any amendment, extension, renewal, refinancing, modification or supplement thereof; *provided* that following such amendment, extension, renewal, refinancing, modification or supplement, the terms of any such agreement or arrangement so amended, modified or supplemented are, on the whole, no less favorable to the Issuer and its Subsidiaries, as applicable, than the original agreement or arrangement as in effect on the Original Issue Date.

The Trustee may rely on such resolution and such Officer's Certificate referred to in this covenant without further inquiry and will not be responsible or liable to any person for so doing.

Use of Proceeds

The Issuer will use the proceeds received from the Notes as set forth in this Offering Memorandum under the caption "*Use of Proceeds*."

Provision of Financial Statements and Reports

The Issuer will provide to the Trustee and furnish to the Holders upon request as soon as they are available but in any event not more than 10 calendar days after they are filed with the Mongolian Stock Exchange or any other recognized stock exchange on which the ordinary share capital of the Issuer is at any time listed for trading, true and correct copies of any financial or other report in the English language (and an English translation of any financial or other report in any other language) filed with such exchange; *provided, however*, that if at any time the ordinary share capital of the Issuer is not listed for trading on the Mongolian Stock Exchange or any other recognized stock exchange, the Issuer will file with the Trustee:

- (a) as soon as they are available, but in any event within the earlier of (i) 120 calendar days after the end of the financial year of the Issuer and (ii) the earliest date on which such information is provided to the holders of any of the Issuer's other debt securities that are outstanding from time to time, copies of the consolidated financial statements and related reports (on a consolidated basis) of the Issuer in respect of such financial year (including a consolidated statement of comprehensive income, a consolidated statement of financial position and a statement of cash flows) audited by a member firm of an internationally recognized firm of independent accountants, and supplemented with information as to (A) Tier-1 Capital Ratio, (B) Capital Adequacy and (C) Liquidity Ratio; and
- (b) as soon as they are available, but in any event within 120 calendar days after the end of the second financial quarter of the Issuer, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants, and supplemented with information as to (i) Tier-1 Capital Ratio, (ii) Capital Adequacy and (iii) Liquidity Ratio; and
- (c) as soon as any become available, copies of the financial statements and related reports (on a consolidated basis) of the Issuer in respect of any quarterly periods (including, but not limited to, any quarterly financial statements and related reports provided to the holders of any of the Issuer's other debt securities that are outstanding from time to time).

In addition, the Issuer will provide to the Trustee as soon as possible and in any event within seven days after the Issuer becomes aware or should reasonably become aware of the occurrence of an Event of Default or Default (or at any time within 14 days of any request in writing by the Trustee), an Officers' Certificate setting forth the details of the Event of Default or Default, and the action which the Issuer proposes to take with respect thereto and the Trustee shall be entitled to accept such certificate as sufficient evidence thereof, in which event it shall be conclusive and binding on the Holders.

Further, the Issuer will agree that, for so long as there are Notes which are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act of 1933, as amended (the “Securities Act”), during any period in which the Issuer is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer will supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

Delivery of such reports, information and documents to the Trustee is for information purposes only and the Trustee’s receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer’s compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers’ Certificates).

The Trustee shall have no obligation to determine if and when the Issuer’s statements or reports are publicly available and accessible electronically.

EVENTS OF DEFAULT

The following events will be defined as “Events of Default” in the Indenture:

- (a) if a default is made in the payment of any principal of any such Note when due; or
- (b) if a default is made in the payment of any interest on any such Note when due, and such default shall continue for 10 Business Days; or
- (c) if the Issuer fails to perform or observe any of its obligations under the Notes, the Indenture (other than any such default referred to in (a) and (b) above) and (except in any case where, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Trustee on the Issuer, or by Holders of at least 25.0% in aggregate principal amount of the Notes, then outstanding, on the Issuer and the Trustee, of notice requiring the same to be remedied; or
- (d) if (i) any present or future Debt of the Issuer or any of its Subsidiaries becomes capable of being declared due and repayable prematurely by reason of an event of default (however described); or (ii) the Issuer or any of its Subsidiaries fails to make any payment in respect of any Debt on the due date for payment or (iii) any security given by the Issuer or any of its Subsidiaries for any Debt becomes enforceable *provided* that no event described in this subparagraph (d) shall constitute an Event of Default unless the Debt or other relative liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Debt and/or other liabilities due and unpaid relative to all (if any) other events specified in (i) through (iii) above, amount to at least US\$5,000,000 or its equivalent in other currencies (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by an independent bank of international repute in London on the day on which the calculation falls to be made); or
- (e) if any order is made by a court of competent jurisdiction or a resolution is passed for the winding up or dissolution of the Issuer or any of its Subsidiaries, save for the purposes of reorganization on terms previously approved by the holders of at least a majority of the aggregate principal amount of the outstanding Notes; or
- (f) if the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganization on terms previously approved by the holders of at least a majority of the aggregate principal amount of the outstanding Notes, or the Issuer or any of its Subsidiaries stops or threatens to stop or suspend payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

- (g) if the Issuer or any of its Subsidiaries (or their respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, bankruptcy, composition, reorganization or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (h) if a moratorium is agreed or declared by the Issuer or any of its Subsidiaries in respect of any Debt (including any obligation arising under any guarantee) of the Issuer or any of its Subsidiaries; or
- (i) if it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Indenture; or
- (j) if any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or any material part of the assets or shares of the Issuer or any of its Subsidiaries without fair compensation; or
- (k) if the Issuer or any of its Subsidiaries is or becomes entitled or subject to, or is declared by law or otherwise to be protected by immunity (sovereign or otherwise) and “— *Waiver of Immunity*” is held to be invalid or unenforceable; or
- (l) if (i) proceedings are initiated against the Issuer or any of its Subsidiaries under any applicable liquidation, insolvency, composition, reorganization or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Subsidiaries or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator or an administrative receiver appointed following presentation of a petition for an administration order) unless initiated by the relevant company, is not discharged within 14 days; or
- (m) if any event occurs, which, under the laws of Mongolia has or may have an analogous effect to any of the events referred to in subparagraphs (f) to (h) inclusive or (j).

If an Event of Default (other than any Event of Default specified in paragraphs (e) to (f) above inclusive) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25.0% in aggregate principal amount of the Notes, then outstanding, by written notice to the Issuer (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written request of such Holders will (subject to being indemnified and/or secured and/or prefunded to its satisfaction), declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest will be immediately due and payable. If any Event of Default specified in paragraphs (e) or (f) above inclusive occurs, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding will automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Issuer and the Trustee, may on behalf of all of the Holders, waive all past defaults and rescind and annul a declaration of acceleration and its consequences with respect to the Notes if:

- (a) the Issuer pays or deposits with the Trustee a sum sufficient to pay all monies then due with respect to the Notes (other than amounts due solely because of such declaration of acceleration) and all other existing Events of Default have been cured or waived, and
- (b) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee shall upon request of Holders of at least a majority in aggregate principal amount of outstanding Notes, pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of, premium (if any) and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction in advance. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction in advance of the proceedings. However, the Trustee may refuse to follow any direction that is unclear, conflicting or equivocal, conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction, and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not believe that reimbursement or satisfactory indemnification and/or security and/or prefunding is assured to it.

A Holder may not pursue or institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (a) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (b) the Holders of at least 25.0% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (c) such Holder or Holders provide the Trustee indemnity and/or security and/or prefunding satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (d) the Trustee does not comply with the request within 60 days after receipt of the request and the indemnity and/or security and/or prefunding; and
- (e) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request,

provided that a Holder may not prejudice the rights of another Holder or to obtain a preference or priority over another Holder. However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest, and Additional Amounts, if any, on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right will not be impaired or affected without the consent of the Holder.

Officers of the Issuer must certify to the Trustee in writing, on or before a date not more than 120 calendar days after the end of each fiscal year, that a review has been conducted of the activities of the Issuer and its Subsidiaries and the Issuer's performance under the Indenture and the Notes and that the Issuer has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Issuer will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "*— Provision of Financial Statements and Reports.*"

The Trustee and the Agents need not do anything to ascertain whether any Event of Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and, the Trustee or the Agents may assume that no such event has occurred and that the Issuer is performing all its obligations under the Indenture and the Notes unless a Responsible Officer of the Trustee has received written notice of the occurrence of such event or facts establishing that an Event of Default has occurred. The Trustee is entitled to rely on any Opinion of Counsel or Officers' Certificate regarding whether an Event of Default has occurred.

CONSOLIDATION, MERGER AND SALE OF ASSETS

The Issuer will not consolidate with, or merge with or into, another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its properties and assets, computed on a consolidated basis with its Subsidiaries (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (a) the Issuer will be the continuing Person, or the Person (if other than the Issuer) formed by such consolidation or merger or that acquired or leased such property and assets (the “Surviving Person”) will be a corporation organized and validly existing under the laws of the jurisdiction in which the Issuer is organized and will (i) retain or succeed to all of the rights and obligations of the Issuer under all of its material government permits, licenses, consents and authorizations and (ii) expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Issuer under the Indenture and the Notes, including the obligation to pay Additional Amounts, and the Indenture and the Notes will remain in full force and effect;
- (b) immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing;
- (c) the Issuer delivers to the Trustee an Officers’ Certificate and an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with and that the relevant supplemental indenture is enforceable; and
- (d) no Rating Decline will have occurred.

The Issuer will procure that its Subsidiaries will not consolidate with, or merge with or into, another Person, permit any Person to merge with or into any of its Subsidiaries, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its properties and assets, computed on a consolidated basis with the Issuer’s Subsidiaries (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (e) such Subsidiary will be the continuing Person, or the Surviving Person (if other than such Subsidiary) will be a corporation organized and validly existing under the laws of the jurisdiction in which such Subsidiary is organized and will retain or succeeds to all of the rights and obligations of such Subsidiary under all of its material government permits, licenses, consents and authorizations;
- (f) immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing;
- (g) the Issuer delivers to the Trustee an Officers’ Certificate and an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with and that the relevant supplemental indenture is enforceable; and
- (h) no Rating Decline will have occurred.

For purposes of this covenant, the conveyance, transfer or lease of all or substantially all of the property or assets of one or more Subsidiaries of the Issuer, which constitutes all or substantially all of the property or assets of the Issuer and its Subsidiaries on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the property or assets of the Issuer.

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Issuer that may adversely affect Holders.

PAYMENTS FOR CONSENTS

The Issuer will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes, unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment. Notwithstanding the foregoing, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes in connection with an exchange offer, the Issuer and any of its Subsidiaries may exclude (a) holders or beneficial owners of the Notes that are not qualified institutional buyers as defined in Rule 144A under the Securities Act, and (b) holders or beneficial owners of the Notes in any jurisdiction where the inclusion of such holders or beneficial owners would require the Issuer or any of its Subsidiaries to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, holders or beneficial owners in such jurisdiction would be unlawful, in each case as determined by the Issuer in its sole discretion.

DEFEASANCE

Defeasance and Discharge

The Indenture will provide that the Issuer will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below and payments of all amounts due to the Trustee were made, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust and to pay Additional Amounts) if, among other things:

- (a) the Issuer has (i) deposited with the Trustee or its nominee, in trust, cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest, premium, if any, and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (ii) delivered to the Trustee (x) a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Issuer is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture and the Notes and (y) an Opinion of Counsel to the effect that the Holders have a valid, perfected, exclusive security in such trust;
- (b) the Issuer has delivered to the Trustee (i) either (x) an Opinion of Counsel of recognized standing with respect to U.S. federal income tax matters which is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Issuer's exercise of its option under this "*— Defeasance and Discharge*" provision and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such deposit, defeasance and discharge had not occurred or (y) a ruling directed to the Issuer or the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel; and (ii) an Opinion of Counsel of recognized standing to the effect that the creation of the defeasance trust does not violate the Investment Company Act;
- (c) the Issuer has delivered to the Trustee an Officers' Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others; and
- (d) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, will have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance will not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Issuer or any Subsidiary is a party or by which the Issuer or any Subsidiary is bound.

AMENDMENTS AND WAIVERS

Amendments Without Consent of Holders

The Indenture may be amended or supplemented, without the consent of any Holder of Notes, to:

- (a) cure any ambiguity, omission, defect or inconsistency in the Indenture or the Notes, *provided* that any such amendment may not adversely affect the interests of the Holders;
- (b) comply with the provisions described under “*Certain Covenants — Consolidation, Merger and Sale of Assets*”;
- (c) evidence and provide for the acceptance of appointment by a successor Trustee;
- (d) add any guarantor or guarantee with respect to the Notes;
- (e) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (f) effect any change in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (g) effect any changes to the Indenture in a manner necessary to comply with the procedures of DTC;
- (h) provide collateral to secure the Notes;
- (i) make any other change that does not materially and adversely affect the rights of any Holder of Notes;
- (j) comply with the rules of any applicable securities depository; or
- (k) conform the text of the Indenture or the Notes to any provision of this “*Description of the Notes*” to the extent that such provision in this “*Description of the Notes*” was intended to be a verbatim recitation of a provision of the Indenture or the Notes.

Amendments With Consent of Holders

Amendments of the Indenture may be made by the Issuer and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of not less than a majority in aggregate principal amount of the outstanding Notes may waive future compliance by the Issuer with any provision of the Indenture or the Notes, *provided* that no such modification, amendment or waiver may, without the consent of each Holder:

- (a) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (b) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (c) change the currency, time or place of payment of principal of, or premium, if any, or interest on, any Note;
- (d) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (e) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture, to waive compliance with certain provisions of the Indenture or to waive certain defaults;

- (f) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (g) amend, change or modify (i) the obligation of the Issuer in respect of the due and punctual payment of the principal of, premium, if any, or interest on, any Note; (ii) the obligation of the Issuer to pay Additional Amounts, or (iii) the ranking of the Notes, in each case, in a manner that adversely affects the Holders; or
- (h) reduce the premium payable upon the redemption or repurchase of any Note, or change the time at which any Note may be redeemed or repurchased as described above under the caption “—*Redemption for Taxation Reasons.*”

NO PERSONAL LIABILITY OF INCORPORATORS, SHAREHOLDERS, DIRECTORS, COMMISSIONERS, OFFICERS OR EMPLOYEES

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Issuer in the Indenture, or in any of the Notes or because of the creation of any Debt represented thereby, will be had against any incorporator, shareholder, director, commissioner, officer, employee or controlling person of the Issuer or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes. Such waiver may not be effective to waive liabilities under the applicable securities laws.

CONCERNING THE TRUSTEE AND THE AGENTS

Deutsche Bank Trust Company Americas is to be appointed as Trustee under the Indenture and as registrar and paying and transfer agent (in such roles, the “Agents”) with regard to the Notes. Except during the continuance of an Event of Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Trustee and the Agents assume no responsibility for this Offering Memorandum including for the accuracy or completeness of the information concerning the Issuer or its affiliates or any other party referenced in this Offering Memorandum or for any failure of the Issuer or any other party to disclose events that may have occurred or may affect the completeness or accuracy of such information.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture for the benefit of the holders of Notes unless such holders have offered to the Trustee pre-funding and/or indemnity and/or security satisfactory to the Trustee against any loss, liability or expense.

The Trustee is permitted to engage in other transactions with the Issuer and its Affiliates and shall not be obligated to account for any profits therefrom and no Trustee and no director or officer of any corporation being a Trustee hereof shall by reason of the fiduciary position of such Trustee be in any way precluded from making any contracts or entering into any transactions in the ordinary course of business with the Issuer, or any person or body corporate directly or indirectly associated with the Issuer, or from accepting the trusteeship of any other debenture stock, debentures or securities of the Issuer or any person or body corporate directly or indirectly associated with the Issuer, and neither the Trustee nor any such director or officer shall be accountable to the Holders or the Issuer, or any person or body corporate directly or indirectly associated with the Issuer, for any profit, fees, commissions, interest, discounts or share of brokerage earned, arising or resulting from any such contracts or transactions and the Trustee and any such director or officer shall also be at liberty to retain the same for its or his own benefit *provided* that if the Trustee acquires any conflicting interest that may have a materially prejudicial effect upon the Holders, it must eliminate such conflict or resign.

The Trustee shall not be responsible for the performance by any other person appointed by the Issuer in relation to the Notes and, unless notified in writing to the contrary, shall assume that the same are being duly performed. The Trustee shall not be liable to any Holders or any other person for any action taken by the Holders or the Trustee in accordance with the instructions of the Holders. The Trustee shall be entitled to rely on any written direction of the Holders which has been duly given by the Holders of the requisite principal amount of the Notes outstanding.

Neither the Trustee nor the Agents will be responsible for making calculations or for verifying calculations performed by the Issuer or any other persons unless otherwise expressly specified in the Indenture.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note (as defined below) is exchanged for definitive Notes. In addition, in the event that a Global Note (as defined below) is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

BOOK-ENTRY; DELIVERY AND FORM

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each, a “Regulation S Global Note”) and will be deposited with the Trustee as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream. Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each, a “Restricted Global Note”); and together with the Regulation S Global Notes, the “Global Notes”) and will be deposited with the Trustee as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under “*Transfer Restrictions*.”

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC (“participants”) or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Beneficial owners may hold their interests in a Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, premium, if any, and interest on, a Global Note, will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Issuer, the Trustee nor any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that DTC or its nominee, upon receipt of any payment of principal of, premium, if any, or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Issuer also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

The Issuer expects that DTC will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, upon the written request of the Holders of an interest in a Global Note, the Issuer will issue certificated, registered form without interest coupons ("Certificated Notes"), which may bear the legend referred to under "Transfer Restrictions," in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under "*Transfer Restrictions*," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by the Issuer within 90 days, the Issuer will issue Certificated Notes, which may bear the legend referred to under "*Transfer Restrictions*," in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under "*Transfer Restrictions*," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

THE CLEARING SYSTEMS

General

DTC, Euroclear and Clearstream have advised the Issuer as follows:

DTC: DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the initial purchaser. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly ("indirect participants"). Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of, premium, if any, and interest on the Notes from the Trustee or the Paying Agent through such DTC participant.

Euroclear and Clearstream: Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States of America corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the Business Day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if a transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to the U.S. depositaries.

Because of time zone differences, credits of Notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the Business Day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Clearstream participants or Euroclear participants on such Business Day. Cash received in Clearstream or Euroclear as a result of sales of Notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the Business Day following settlement in DTC.

The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

NOTICES

All notices or demands required or permitted by the terms of the Notes or the Indenture are required to be in writing and may be given or served, in English, by being sent by e-mail, prepaid courier or by being deposited, first-class postage prepaid, in the United States of America mail (if intended for the Issuer) addressed to the Issuer (if intended for the Trustee), at the corporate trust office of the Trustee; and (if intended for any Holder) with respect to any certificated Notes, addressed to such Holder at such Holder's last address as it appears in the note register ("Register") or with respect to Global Notes, in accordance with the applicable rules and procedures of DTC.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of DTC. Any such notice will be deemed to have been delivered on the day such notice is delivered to DTC or if by mail, when so sent or deposited.

ARBITRATION

The Issuer will agree in the Indenture that any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Notes or the Indenture, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them (a "Dispute"), shall be referred to and finally resolved by arbitration before the Singapore International Arbitration Centre (the "SIAC") under the Arbitration Rules of SIAC prevailing at the time of any dispute (for the purpose of this section "Arbitration", the "Rules"). The Rules are incorporated by reference into this section "Arbitration", and capitalized terms used in this section "Arbitration" which are not defined herein shall have the meaning given to them in the Rules. There shall be three (3) arbitrators, each of whom shall have no connection with any party to the Dispute and shall be a lawyer experienced in international securities transactions.

The seat or legal place of the arbitration shall be Singapore. The language used in the arbitral proceedings shall be English. All documents submitted in connection with the proceedings shall be in the English language, or if in another language, accompanied by an English translation. Service of any Notice of Arbitration made pursuant to this provision shall be in accordance with the "Notices" section above.

Joinder of Parties and Consolidation of Disputes

In this section "Arbitration":

"Linked Dispute" means any Dispute and/or any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Notes or the Indenture, including any dispute as to its existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with it, where a Notice of Arbitration is served after a Notice of Arbitration has been served in respect of a Primary Dispute.

"Notice of Arbitration" means a Notice of Arbitration within the meaning of the Rules.

"Primary Dispute" means any Dispute and/or any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Notes or the Indenture, including any dispute as to its existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection therewith, where a Notice of Arbitration has been served before a Notice of Arbitration has been served in relation to a Linked Dispute.

Joinder of Parties

Each Noteholder agrees that Rule 7 of the Rules shall apply to any application for joinder of additional parties, *provided, however*, that any Noteholders that are not parties to the arbitration in which the joinder application is made at the time of the original commencement of such arbitration may not be joined as additional parties under Rule 7.1 or Rule 7.8 of the Rules.

Consolidation of Disputes

Each Noteholder consents to consolidation in accordance with Rule 8 of the Rules, and agrees that, for purposes of Rule 8.1 and Rule 8.7 of the Rules, the arbitration agreements in the Notes and the Indenture are compatible and a Primary Dispute and any Linked Dispute would presumptively arise out of the same legal relationship and the same transaction or series of transactions, subject to rebuttal by any party opposing consolidation on the ground that the arbitrations sought to be consolidated do not raise common issues of law or fact or that consolidation would not serve the interests of justice and efficiency.

APPOINTMENT OF PROCESS AGENT

The Issuer irrevocably appoints Law Debenture Corporate Services Inc. as its agent under the Notes for service of process in New York, and undertakes that, in the event of such agent ceasing to be registered in the State of New York, the Issuer will appoint another person as its agent for service of process in the State of New York in respect of any proceedings. Nothing herein shall affect the right to serve proceedings in any other manner, or in any other jurisdiction, permitted by law.

WAIVER OF IMMUNITY

To the fullest extent permitted by applicable law, and for the sole purpose of judicial relief in support of any arbitration (including judicial proceedings to recognize and enforce such judicial relief or a resulting arbitral award or a judgment recognizing such arbitral award), the Issuer irrevocably and unconditionally:

- (a) submits to the non-exclusive jurisdiction of the state and federal courts sitting in the Borough of Manhattan, New York, New York and all courts to which appeals and/or petitions for certiorari may be presented (the “Courts”) for the sole purpose of judicial relief in support of any arbitration (including judicial proceedings to recognize and enforce a resulting arbitral award) and (i) waives and agrees not to claim any sovereign or other immunity (including, but not limited to, any immunity under the Foreign Sovereign Immunities Act 1976, as amended) from the jurisdiction of those courts; and (ii) waives and agrees not to raise any objection to the venue of any such court in relation to the giving of such relief; and
- (b) waives and agrees not to claim any sovereign or other immunity (including, but not limited to, any immunity under the Foreign Sovereign Immunities Act of 1976, as amended) to which it might otherwise be entitled whether before or after final judgement or arbitral award including, without limitation, immunity against enforcement or execution against its property, revenues or other assets in such jurisdiction.

JUDGMENT CURRENCY

To the fullest extent permitted by applicable law, the obligations of the Issuer to any Holder under the Indenture or the Notes will, notwithstanding any award or judgment in a currency (the “Judgment Currency”) other than United States dollars (the “Agreement Currency”), not be discharged until the first day that is a Business Day following receipt by such Holder or the Trustee, as the case may be, of any amount in the Judgment Currency, which a person may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally due to such Holder or the Trustee, as the case may be, the Issuer agrees, as a separate obligation and notwithstanding such judgment, to pay the difference to such Holder or the Trustee, as the case may be.

GOVERNING LAW

Each of the Notes and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

DEFINITIONS

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “*Description of the Notes*” for which no definition is provided.

“Affiliate” means, with respect to any Person, any other Person (a) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or (b) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (a) of this definition. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Attributable Debt” means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate borne by the Notes of the total obligations of the lessee for rental payments during the remaining term of the lease in such Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

“Board of Directors” means the representative governing board elected or appointed by the stockholders of the Issuer to manage the business of the Issuer or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, Singapore or Mongolia or the city where the corporate trust office of the Trustee is then located are authorized by law or governmental regulation to close; *provided* that, solely for purposes of determining the date of any payment to be made on any Note, “Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, Singapore or Mongolia or the place in which payments on the Notes are to be made are authorized by law or governmental regulation to close.

“Capital Adequacy Ratio” means the capital as defined in the Capital Regulation with specified adjustments divided by the risk-weighted assets as defined in and calculated in accordance with the Capital Regulation.

“Capital Regulation” means Article 17 of the Banking Law of Mongolia and “Regulation on setting and monitoring prudential ratios to banking operation” approved by Governor’s Decree 138 of 2019, as may be amended, supplemented, restated or superseded from time to time.

“Capital Stock” means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or nonvoting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with IFRS, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the capitalized amount of any rental obligations under a Capitalized Lease in accordance with IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of penalty.

“Clearstream” means Clearstream Banking, société anonyme or any successor thereof.

“Commission” means the U.S. Securities and Exchange Commission, as from time to time constituted under the Exchange Act, or if at any time after the execution of this instrument such Commission is not existing, then the body performing such duties on such date.

“Common Stock” means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding on the Original Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Consolidated Net Profit” means, for any period, the net profit of the Issuer and its Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS.

“Currency Agreement” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

“Debt” means, with respect to any Person at any date of determination (without duplication):

- (a) all indebtedness of such Person for borrowed money;
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (c) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments (including any premium to the extent such premium has become due and payable);
- (d) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (e) all Capitalized Lease Obligations and Attributable Debt;
- (f) all indebtedness of other Persons secured by a Security Interest on any asset of such Person, whether or not such Debt is assumed by such Person; *provided* that the amount of such indebtedness shall be the lesser of (i) the Fair Market Value of such asset at such date of determination and (ii) the amount of such indebtedness;
- (g) all indebtedness of other Persons guaranteed by such Person to the extent such indebtedness is guaranteed by such Person; and
- (h) to the extent not otherwise included in this definition, Hedging Obligations; and (i) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

“Deferred Capital Stock” means a dividend or distribution declared by the Issuer and which a shareholder of the Issuer has irrevocably instructed the Issuer to retain and apply towards consideration for any future Capital Stock to be issued by the Issuer to such shareholder.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or otherwise is (a) required to be redeemed prior to the Stated Maturity of the Notes, (b) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (c) convertible into or exchangeable for Capital Stock referred to in clause (a) or (b) above or Debt having a scheduled maturity prior to the Stated Maturity of the Notes.

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Bank of Mongolia on the date of determination.

“DTC” means The Depository Trust Company and its successors.

“Euroclear” means Euroclear Bank S.A./N.V. or any successor thereof.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by its resolution.

“guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Currency Agreement or Interest Rate Agreement.

“Holder” means the Person in whose name a Note is registered in the Register.

“IFRS” means International Financial Reporting Standards as in effect in Mongolia from time to time and as adopted and made applicable to the Issuer’s financial statements by the Bank of Mongolia. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with IFRS applied on a consistent basis.

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; a rating of “BBB-” or better by Fitch or any of its successors or assigns; or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Issuer as having been substituted for S&P or Fitch or any combination thereof, as the case may be.

“Lien” means any mortgage, pledge, fiduciary, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Liquidity Ratio” means such term as defined in and calculated in accordance with the Capital Regulation.

“Officer” means one of the executive officers or directors of the Issuer.

“Officers’ Certificate” means a certificate signed by two Officers.

“Opinion of Counsel” means a written opinion from legal counsel which opinion is reasonably acceptable to the Trustee that meets the requirements of the Indenture; *provided* that legal counsel shall be entitled to rely on a certificate of the Issuer as to matters of fact.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

“Rating Agencies” means (a) Moody’s Investors Service Limited and its successors (“Moody’s”) and (b) Standard & Poor’s Ratings Services and its successors (“S&P”); and (c) if one or more of Moody’s or S&P shall not make a rating of the Notes publicly available, a United States of America nationally recognized securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for Moody’s or S&P or any combination thereof, as the case may be.

“Rating Category” means (1) with respect to S&P and Fitch, any of the following categories: “BB”, “B”, “CCC”, “CC”, “C” and “D” (or equivalent successor categories), (2) with respect to Moody’s, any of the following categories: “Ba”, “B”, “Caa”, “Ca”, “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P, Fitch or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P and Fitch; “1”, “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) will be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB”, as well as from “BB-” to “B+”, will constitute a decrease of one gradation).

“Rating Date” means, in connection with actions or events contemplated under “— *Consolidation, Merger and Sale of Assets*”, that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means, in connection with actions or events contemplated under “— *Consolidation, Merger and Sale of Assets*”, the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (1) in the event the Notes are rated by all three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two of the three or all three Rating Agencies will be below Investment Grade;
- (2) in the event the Notes are rated by any two, but not all three, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either of such two Rating Agencies will be below Investment Grade;
- (3) in the event the Notes are rated by only one of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency will be below Investment Grade; or
- (4) in the event the Notes are rated below Investment Grade by all Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency will be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Refinancing Debt” means any Debt that is incurred to refinance any other Debt including any Debt that refinances Refinancing Debt *provided* that: (x) such Refinancing Debt is incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Debt being refinanced; and (y) such Refinancing Debt is expressed by its terms to be subordinated in right of payment to the Notes.

“Relevant Debt” means (a) any present or future Debt (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which (1) by their terms are payable in a currency other than Tugriks and (2) are for the time being, or are intended to be, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, and (b) any guarantee or indemnity in respect of any such indebtedness.

“Restricted Payment” with respect to the Issuer or any of its Subsidiaries means:

- (a) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (i) dividends or distributions payable solely in its Capital Stock, Deferred Capital Stock or in options, warrants or other rights to purchase such stock, (ii) dividends or distributions payable solely to the Issuer or a Wholly-Owned Subsidiary of the Issuer and (iii) pro rata dividends or other distributions made by a Subsidiary of the Issuer that is not a Wholly-Owned Subsidiary of the Issuer to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));
- (b) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Issuer held by any Person (other than by a Subsidiary) or of any Capital Stock of a Subsidiary of the Issuer held by any Affiliate of the Issuer (other than by another Subsidiary of the Issuer), including in connection with any merger or consolidation and including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Issuer that is not Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of Debt of such Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the first anniversary of the Maturity Date); or
- (c) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity or scheduled repayment of any Subordinated Obligations of the Issuer or any Subsidiary of the Issuer (except for the repayment of inter-company debt owed by any member of the Group to any other member of the Group from time to time).

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Issuer or any Subsidiary transfers such property to another Person and the Issuer or any Subsidiary leases it from such Person.

“Stated Maturity” means, (a) with respect to any Debt, the date specified in such debt security as the fixed date on which the final installment of principal of such Debt is due and payable as set forth in the documentation governing such Debt and (b) with respect to any scheduled installment of principal of or interest on any Debt, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Debt.

“Subordinated Obligations” means, with respect to any Person, any Debt of such Person (whether outstanding on the Original Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Notes pursuant to a written agreement to that effect.

“Subsidiary” means any company (a) in which the Issuer holds a majority of the voting rights, (b) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (c) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a subsidiary of a Subsidiary.

“Tier-1 Capital Ratio” means the Tier-1 capital with specified adjustments divided by the risk-weighted assets as defined in and calculated in accordance with the Capital Regulation.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 90 days.

“U.S. Government Obligations” means securities that are (a) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (b) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and will also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Wholly-Owned Subsidiary” of any specified Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which shall at the time be owned by such Person or by one or more Wholly-Owned Subsidiaries of such Person.

PLAN OF DISTRIBUTION

Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc and Korea Investment & Securities Asia Limited are acting as the Initial Purchasers. J.P. Morgan Securities plc will act as the Issuer's Development Finance Structuring Agent. Subject to the terms and conditions stated in the purchase agreement dated the date of this Offering Memorandum (the "Purchase Agreement"), each Initial Purchaser has severally and not jointly agreed to purchase, and the Issuer has agreed to issue and sell to each such Initial Purchaser, the principal amount of the Notes set forth opposite the name of such Initial Purchaser below.

Initial Purchaser	Principal Amount
Deutsche Bank AG, Singapore Branch	US\$152,400,000
J.P. Morgan Securities plc	US\$117,600,000
Korea Investment & Securities Asia Limited	US\$30,000,000
Total	US\$300,000,000

The Purchase Agreement provides that the several and not joint obligations of the Initial Purchasers to purchase the Notes are subject to certain conditions contained in the Purchase Agreement, including the receipt by the Initial Purchasers of documentation related to the issuance and sale of the Bonds, certificates of the Issuer and legal opinions. The Purchase Agreement may be terminated by the Initial Purchasers in certain circumstances prior to payment of the Bonds. The initial offering price is set forth on the cover page of this Offering Memorandum. After the Notes are released for sale, the Initial Purchasers may change the offering price and other selling terms. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part. Delivery of the Notes is expected to occur on or about May 20, 2024.

The Notes have not been registered under the Securities Act and, unless so registered, may not be offered or sold within the United States except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The Notes will constitute a new class of securities with no established trading market. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. The Issuer does not intend to apply for listing or quotation of the Notes on any national securities exchange in the United States. However, there can be no assurance that the prices at which the Notes will sell in the market after the offering of the Notes will not be lower than the initial offering price or that an active trading market for the Notes after the completion of the offering of the Notes will develop and continue after the offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and may discontinue any market-making activities with respect to the Notes at any time without notice. In addition, market-making activity will be subject to the limits imposed by applicable law. Accordingly, there can be no assurance that the trading market for the Notes will have any liquidity.

In connection with the offering of the Notes, Deutsche Bank AG, Singapore Branch (the "Stabilizing Manager"), (or persons acting on its behalf) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes during the stabilization period at a level higher than that which might otherwise prevail. However, stabilization may not necessarily occur. Any stabilization action may begin on or after the date of adequate public disclosure of the terms of the offer of the Notes and, if begun, may cease at any time, but it must end no later than 30 calendar days after the date on which the Issuer received the proceeds of the issue, or no later than 60 calendar days after the date of allotment of the Notes, whichever is the earlier. Any stabilization action or over-allotment must be conducted by the Stabilizing Manager (or persons acting on its behalf) in accordance with all applicable laws and rules and will be undertaken at the offices of the Stabilizing Manager (or persons acting on its behalf) and on the SGX-ST.

Certain of the Initial Purchasers (including the Development Finance Structuring Agent) and their respective affiliates have, from time to time, performed, are currently providing and may in the future perform, certain commercial banking and lending, hedging, investment banking and advisory and other banking services for us, and/or our affiliates for which they have received or will receive customary fees and expenses. J.P. Morgan will not receive any fee for acting as the Development Finance Structuring Agent in connection with the Notes. The Initial Purchasers (including the Development Finance Structuring Agent) and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Initial Purchasers (including the Development Finance Structuring Agent) and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Issuer. Further, the Initial Purchasers (including the Development Finance Structuring Agent) and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of any Initial Purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Initial Purchaser or its affiliate on behalf of the Issuer in such jurisdiction.

Delivery of the Notes is expected on or about May 20, 2024 which is the sixth business day following the date of this Offering Memorandum (such settlement cycle being referred to as “T+6”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or the next succeeding business day will be required, because the Notes initially will settle in T+6, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers who wish to trade the Notes on the pricing date or the next succeeding business day should consult their own advisers.

IMPORTANT NOTICE TO CMIS (INCLUDING PRIVATE BANKS)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for this offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the Joint Global Coordinators and Joint Bookrunners accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for this offering includes institutional investors, long-only investors, sovereign wealth funds, pension funds, hedge funds, corporates, private banks/broking companies, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Memorandum.

CMI should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e., two or more corresponding or identical orders placed via two or more CMIs). CMIs should inquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place “X-orders” into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Bank. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the Notes.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Joint Global Coordinators and Joint Bookrunners in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the Notes, private banks should disclose, at the same time, if such order is placed other than on a “principal” basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a “principal” basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a “principal” basis may require the relevant affiliated Joint Global Coordinators and Joint Bookrunners (if any) to categorize it as a proprietary order and apply the “proprietary orders” requirements of the SFC Code to such order.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- the name of each underlying investor;
- a unique identification number for each investor;
- whether an underlying investor has any “Associations” (as used in the SFC Code);
- whether any underlying investor order is a “Proprietary Order” (as used in the SFC Code); and
- whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus orders should be sent to: if to Deutsche Bank AG, Singapore Branch, to milestone.db@list.db.com; and if to J.P. Morgan Securities plc, to investor.info.hk.oc.bond.deals@jpmorgan.com.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Bank, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for this offering. CMIs that

receive such underlying investor information are reminded that such information should be used only for submitting orders in this offering. The Joint Global Coordinators and Joint Bookrunners may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIIs (including private banks) are required to provide the relevant Joint Global Coordinators and Joint Bookrunners with such evidence within the timeline requested.

SELLING RESTRICTIONS

General

No action has been taken or will be taken in any jurisdiction by the Issuer or the Initial Purchasers that would permit a public offering of Notes, or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Notes or the offering of the Notes, in any jurisdiction where action for that purpose is required.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

Denmark

The Initial Purchasers have represented and agreed that they have not offered or sold and will not offer, sell or deliver any Notes directly or indirectly in Denmark by way of a public offering, unless in compliance with the Danish Consolidated Act No. 1229 of September 7, 2016 on Trading in Securities, as amended, and any Executive Orders issued thereunder and in compliance with Executive Order No. 623 of April 24, 2015 to the Danish Financial Business Act.

European Economic Area

This Offering Memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Regulation (EU) 2017/1129 (the “EU Prospectus Regulation”). Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Initial Purchasers to publish a prospectus for such offer. Neither the Issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the Notes contemplated in this Offering Memorandum.

The Notes may not be offered, sold or otherwise made available to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended “MiFID II”); or
 - a customer within the meaning of Directive 2016/97/EU (the “IDD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - not a qualified investor as defined in the EU Prospectus Regulation; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

France

This Offering Memorandum has not been prepared in the context of a public offering in France within the meaning of Article L. 411-1 of the *Code Monétaire et Financier* and Title I of Book II of the *Règlement Général* of the *Autorité des marchés financiers* (the “AMF”) and therefore has not been submitted for clearance to the AMF. Consequently, the Notes may not be, directly or indirectly, offered or sold to the public in France, and offers and sales of the Notes will only be made in France to providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d’investissement de gestion de portefeuille pour le compte de tiers*) and/or to qualified investors (*investisseurs qualifiés*) and/or to a closed circle of investors (*cercle restreint d’investisseurs*) acting for their own accounts, as defined in and in accordance with Articles L. 411-2 and D. 411-1 of the *Code Monétaire et Financier*. Neither this Offering Memorandum nor any other offering material may be distributed to the public in France.

Germany

The offering of the Notes is not a public offering in the Federal Republic of Germany. The Notes may only be offered, sold and acquired in accordance with the provisions of the Securities Prospectus Act of the Federal Republic of Germany (the “Securities Prospectus Act,” *Wertpapierprospektgesetz*, WpPG), as amended, and any other applicable German law. No application has been made under German law to permit a public offer of the Notes in the Federal Republic of Germany. The Notes are not registered or authorized for distribution under the Securities Prospectus Act and accordingly may not be, and are not being, offered or advertised publicly or by public promotion. Therefore, this Offering Memorandum is strictly for private use and the offer is only being made to recipients to whom the document is personally addressed and does not constitute an offer or advertisement to the public. The Notes will only be available to, and this Offering Memorandum and any other offering material in relation to the Notes is directed only at, persons who are qualified investors (*qualifizierte Anleger*) within the meaning of Section 2, No. 6 of the Securities Prospectus Act or who are the subject of another exemption in accordance with Section 3 para. 2 of the Securities Prospectus Act. Any resale of the Notes in Germany may only be made in accordance with the Securities Prospectus Act and other applicable laws.

Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the offering memorandum or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the “Financial Services Act”) and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time (“Regulation No. 11971”); or

in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the offering memorandum or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must:

- (a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007 (as amended from time to time) and Legislative Decree No. 385 of September 1, 1993, as amended (the “Banking Act”); and
- (b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and the Initial Purchasers have agreed that they will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Mongolia

The Initial Purchasers have represented and agreed that neither it nor any of its affiliates has offered or will offer any of the Notes to the public within the territories of Mongolia.

People’s Republic of China

This Offering Memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in China. Other than to qualified domestic institutional investors in China, the Notes are not being offered and may not be offered or sold, directly or indirectly, in China to or for the benefit of, legal or natural persons of China. According to the laws and regulatory requirements of China, with the exception of qualified domestic institutional investors in China, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-Chinese natural or legal persons in any country other than China.

Republic of Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act. Each Initial Purchaser has represented and agreed, that it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, any Notes in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea and the regulations thereunder), except as otherwise permitted under applicable Korean laws and regulations.

Singapore

This Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

Switzerland

The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or any other exchange or regulated trading facility in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Notes constitutes (i) a prospectus as such term is understood pursuant to Article 652a or 1156 of the Swiss Code of Obligations or (ii) a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this Offering Memorandum nor any other marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. In addition, this Offering Memorandum nor any other offering or marketing material relating to the Notes may not comply with the Directive for Notes of Foreign Borrowers of the Swiss Bankers Association. The Notes are being offered in Switzerland by way of private placement, without any public advertisement and only to investors who do not purchase the Notes with the intention to distribute them to the public. The investors will be individually approached directly from time to time. This Offering Memorandum, as well as any other offering or marketing material relating to the Notes, is personal and confidential and does not constitute an offer to any other person. This Offering Memorandum, as well as any other offering or marketing material relating to the Notes, may only be used by those investors to whom it has been handed out in connection with the offering and may neither directly nor indirectly be distributed or made available to other persons without the Issuer's express consent.

Taiwan

The Notes have not been and will not be offered, sold or resold, directly or indirectly, in Taiwan, to investors other than "professional institutional investors" as defined under Paragraph 2, Article 19.7 of the Regulations Governing Securities Firms of the Republic of China.

The Netherlands

The Notes have not been and will not be offered in The Netherlands other than to persons or entities which are qualified investors (*gekwalificeerde belegger*) as defined in article 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

United Arab Emirates and the Dubai International Financial Center

The Notes have not been reviewed by or registered with the Emirates Securities and Commodities Authority, the Dubai Financial Services Authority, the Central Bank of the United Arab Emirates or any other governmental authority in the United Arab Emirates or the Dubai International Financial Center, and have not been authorized or licensed for offering, marketing, advertisement or sale in the United Arab Emirates or the Dubai International Financial Center. As such, the Notes are not being offered, marketed or sold to the public in the United Arab Emirates or the Dubai International Financial Center. The information contained in this Offering Memorandum does not, and is not intended to, constitute a public offer, sale, promotion, advertisement or delivery of securities in the United Arab Emirates or the Dubai International Financial Center in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984, as amended), Regulatory Law DIFC Law No. 1 of 2004, Markets Law DIFC Law No. 12 of 2004, the Offered Securities Rules or otherwise and should not be construed as such. This offering of Notes is being made in accordance with, and any related materials are subject to, the laws, regulations and rules of a jurisdiction outside the United Arab Emirates and the Dubai International Financial Center. Interested investors from the United Arab Emirates or the Dubai International Financial Center who approach us, or the Initial Purchasers, must understand this restriction and acknowledge that they may not copy or distribute this Offering Memorandum to any other person.

United Kingdom

The Initial Purchasers have represented and agreed that

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA and the regulations made under the EUWA; (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA and the regulations made under the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA and the regulations made under the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

United States

The Notes have not been, and will not be, registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. See “Transfer Restrictions” for a description of other restrictions on the transfer of Notes. Accordingly, the Notes are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S and in the United States to “qualified institutional buyers” in reliance on Rule 144A under the Securities Act.

As used herein, the term “United States” has the meaning given to it in Regulation S.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

We have not registered the Notes under the Securities Act and the Notes may only be offered or sold (i) within the United States to “qualified institutional buyers” in reliance on Rule 144A under the Securities Act or (ii) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Terms used above and otherwise in this section of this Offering Memorandum have the meanings given to them by Regulation S and Rule 144A.

Each purchaser of Notes will be deemed to have represented and agreed as follows:

- (1) You understand and acknowledge that the Notes have not been and will not be registered under the Securities Act or any other applicable securities laws and that the Notes are being offered for resale in transactions not requiring registration under the Securities Act or any other securities laws including resales pursuant to Rule 144A, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities laws, pursuant to an exemption therefrom, or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (3) below.

You are not our “affiliate” (as defined in Rule 144 under the Securities Act), you are not acting on our behalf and you are either:

- (a) a qualified institutional buyer and are aware that any sale of these Notes to you will be made in reliance on Rule 144A and such acquisition will be for your own account or for the account of another qualified institutional buyer; or
 - (b) purchasing Notes in an offshore transaction in accordance with Regulation S.
- (2) You acknowledge that none of us, the Initial Purchasers or any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offer or sale of any of the Notes, other than the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to you. You represent that you are only relying on this Offering Memorandum in making your investment decision with respect to the Notes. You acknowledge that the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum. You have had access to such financial and other information concerning us and the Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.
- (3) You are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within your or their control and subject to your or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other available exemption from registration available under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing the Notes, and each subsequent holder of these Notes by its acceptance thereof will agree, to offer, sell or otherwise transfer such Notes prior to (x) the date which is one year (or such shorter period of time as permitted by Rule 144(d) under the Securities Act or any successor provision thereunder) after the later of the date of the original issue of these Notes and the last date on which we or any of our affiliates were the owner of such Notes (or any predecessor thereto) or (y) such later date, if any, as may be required by applicable law (the “Resale Restriction Termination Date”) only:
 - (a) to us or any of our affiliates;

- (b) pursuant to a registration statement which has been declared effective under the Securities Act;
- (c) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person you reasonably believe is a qualified institutional buyer that purchases for its own account or for the account of another qualified institutional buyer to whom you give notice that the transfer is being made in reliance on Rule 144A;
- (d) outside the United States in offshore transactions meeting the requirements of Rule 904 under the Securities Act; or
- (e) pursuant to any other available exemption from the registration requirements of the Securities Act;

subject in each of the foregoing cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be within the seller or account's control, and in compliance with any applicable state securities laws.

You acknowledge that we, the Trustee and the Registrar reserve the right prior to any offer, sale or other transfer of the Notes pursuant to clause (e) above prior to the Resale Restriction Termination Date of the Notes to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to us, the trustee and the registrar.

- (4) You acknowledge that each Note will contain a legend substantially in the following form:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A “QIB”) OR (B) IT IS NOT IN THE UNITED STATES, IS NOT ACQUIRING THIS NOTE FOR THE ACCOUNT OR BENEFIT OF A PERSON WITHIN THE UNITED STATES AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO UNDER RULE 144 UNDER THE SECURITIES ACT AS IN EFFECT ON THE DATE OF THE TRANSFER OF THIS NOTE, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE ISSUER OR ANY OF ITS AFFILIATES THEREOF, (B) TO A PERSON WHOM THE HOLDER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT, (D) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS, AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS.

[BY ITS PURCHASE AND HOLDING HEREOF, THE HOLDER REPRESENTS THAT EITHER (A) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF, (I) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”) THAT IS SUBJECT TO TITLE I OF ERISA, (II) A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A PLAN OR ARRANGEMENT WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, OTHER LAW OF THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAWS”), OR (B) ITS ACQUISITION AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAWS”]

If the Notes are issued with original issue discount for U.S. federal income tax purposes, the Notes will bear the following legend:

ORIGINAL ISSUE DISCOUNT. THE NOTES HAVE BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT (“OID”) FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. IN SUCH CASE, THE ISSUE PRICE, THE AMOUNT OF OID, THE ISSUE DATE AND THE YIELD TO MATURITY MAY BE OBTAINED BY CONTACTING THE ISSUER AT SOLONGO ZALAA-UUL, Solongo_z@golombank.com OR +976-70111646/EXT.1674.

If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

- (5) You acknowledge that the registrar will not be required to accept for registration or transfer any Notes acquired by you, except upon presentation of evidence satisfactory to us and the registrar that the restrictions set forth herein have been complied with.
- (6) You acknowledge that:
 - (a) the Issuer and its subsidiaries, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgements, representations and agreements set forth herein and you agree that, if any of your acknowledgements, representations or agreements herein cease to be accurate and complete, you will notify us and the Initial Purchasers promptly in writing; and
 - (b) if you are acquiring any Notes as fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:
 - (i) you have sole investment discretion; and
 - (ii) you have full power to make the foregoing acknowledgements, representations and agreements.
- (7) You agree that you will give to each person to whom you transfer these Notes notice of any restrictions on the transfer of the Notes.
- (8) You understand that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for that purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under “Plan of Distribution.”
- (9) The Notes may not be sold or transferred to, and you as a purchaser or transferee, by your purchase and holding of the Notes, shall be deemed to have represented and covenanted that you are not and are not for so long as it holds a Note (or any interest therein) will not be and will not be acting on behalf of any Plan or plan or arrangement that is subject to Similar Laws, unless such acquisition and holding of the Note (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Laws.

TAXATION

The following summary is based on tax laws of Mongolia and the United States as in effect on the date of this Offering Memorandum, and is subject to changes in Mongolia law or in the laws of the United States, including changes that could have retroactive effect. The following summary does not take into account or discuss the tax laws of any countries other than Mongolia or the United States. Prospective purchasers in all jurisdictions are advised to consult their own tax advisors as to Mongolia law or the laws of the United States or other tax consequences of the acquisition, ownership and disposition of the Notes.

MONGOLIA TAXATION

Interest Payments

The revised “Corporate Income Taxation Law” and the revised “Personal Income Tax Law of Mongolia” both dated March 22, 2019, became effective on January 1, 2020. Accrued Interest of the Notes, payable to non-resident holders of the Notes, will be subject to Mongolian withholding tax in accordance with the Mongolian law. In general, in the absence of an applicable exemption under Mongolian domestic law, interest paid to Mongolian resident legal entities and individuals will be subject to income tax at a rate of 5.0%, while interest paid to non-resident legal entities will be subject to income tax at a rate of 20.0%. According to the Corporate Income Tax Law, the applicable tax rate for bonds issued by commercial banks in the local or foreign market is set at 5 percent for both resident and non-residents. Pursuant to the Personal Income Tax Law of Mongolia, starting from January 1, 2020, any income of non-resident individual taxpayers earned “in the territory of Mongolia” will be subject to an income tax at rate of 20.0%. Income tax of 5% will be imposed on the interest and dividend income earned in connection with debt instruments, shares or units of a Mongolian resident taxpayer that are openly traded on foreign and domestic primary and secondary markets.

In respect of any non-resident legal entities or individuals not registered as taxpayers in Mongolia, the Mongolian income tax payable on the interest paid under bonds or securities will be withheld from the interest payment at the rate indicated above or, if the beneficiary of the interest payment is resident in a country with which Mongolia has entered into a double taxation treaty, at a potentially lower rate of tax if so provided in the applicable treaty. For individuals, if the interest income of the bonds is deemed as income earned in the territory of Mongolia by the tax authorities, the Bank is obligated to deduct and withhold the interest income tax from the income. Certain of Mongolia’s bilateral tax treaties provide two rates of income tax which Mongolia may assess on interest paid by the Bank to a tax resident of the relevant country, provided such recipient of the interest is also the beneficiary of the interest. One rate is applicable to some, but not necessarily all, interest payments made to banks or similar financial institutions, while the second rate is applicable to all other recipients of interest (other than banks or similar financial institutions). In each treaty, the rate applicable to payments made to banks or other similar financial institutions is lower (in some cases as low as 0.0%) than the rate applicable to payments of interest made to non-banks. However, in respect of banks and similar financial institutions, the relevant treaty must be examined to determine the availability of such special rate and its applicability to payments of interest under the Notes, as certain of the conventions do not contain a special rate for payments made to banks or similar financial institutions. In other cases, where a special rate is provided for, the treaty restricts the applicability of the rate to certain specified types of interest payments. However, holders of the Notes will not be required to establish eligibility for a reduced withholding tax rate under any income tax treaty in order to be entitled to Additional Amounts in respect of any Mongolian withholding tax. See “Description of the Notes — Additional Amounts.”

As of the date of this Offering Memorandum, bilateral tax treaties are in place between Mongolia and 26 other countries, including Austria, Belgium, China, France, Germany, Italy, Russia, Singapore, South Korea, Switzerland. This list is not exhaustive. The applicable tax rate in respect of interest payments received by non-banks of these countries is 10.0% (other than for South Korea, where the applicable tax rate is 5.0%). As noted above, a lower rate may be applicable under other treaties in respect of interest paid to a bank or similar financial institution. Interested parties should consult their own tax advisors to determine potential applicability.

Therefore, both the revised Corporate Income Taxation Law of Mongolia and the revised Personal Income Tax Law of Mongolia provide that interest paid on notes issued by the Bank will be subject to corporate and/or personal income tax. Accordingly, and to the extent that the Notes are subject to Mongolian withholding tax, then subject to the limitations set forth under the “Description of the Notes — Additional Amounts”, holders of the Notes will generally be entitled to Additional Amounts with respect to such tax.

In respect of the Notes issued with original discount under Mongolian law the definition of interest may be interpreted to include original issue discount, which is the excess of the redemption price at maturity of the Notes over its issue price. Mongolian law does not, however, provide any guidance as to how original issue discount is to be recognized and the relevant tax is to be paid.

Capital Gains

Pursuant to the revised Personal Income Tax Law and the revised Corporate Income Taxation Law, payments with respect to notes or securities issued by the Bank, including the Notes, are subject to taxation. Mongolian tax residents will be subject to Mongolian income tax in respect of any capital gains realized on the sale of the Notes. The potential application of Mongolian income tax to any capital gains realized on the sale of the Notes by a non-resident entity or individual remains uncertain. The revised Corporate Income Taxation Law does not specifically impose to non-resident legal entities and person any withholding tax on capital gains realized outside Mongolia on the sale of securities.

In the absence of specific statutory provision, it appears that any capital gains realized outside Mongolia by non-resident legal entities with respect to the Notes will not be taxable in Mongolia. This position may change in the future depending on Mongolia’s tax policies and changes in the relevant laws. Further, as discussed above, relief from Mongolian tax obligations in this regard may be available to non-resident taxpayers covered by one of Mongolia’s bilateral tax treaties. No stamp duties or similar taxes or charges are payable under the laws of Mongolia in respect of the execution, issue, sale or transfer of the Notes. Interested parties should consult their own tax advisors to determine potential applicability.

Certain U.S. Federal Income Tax Considerations

The following is a general discussion of certain U.S. federal income tax consequences relevant to U.S. Holders (as defined below) under present law of the purchase, ownership and disposition of the Notes. This general discussion applies only to U.S. Holders that acquire their Notes in this offering at their original “issue price” (i.e., the first price at which a substantial amount of the Notes is sold to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers)) and hold such Notes as capital assets within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based on current provisions of the Code, existing final, temporary and proposed U.S. Treasury regulations promulgated thereunder (the “Treasury Regulations”), and administrative and judicial interpretations thereof, all as in effect or proposed on the date of this Offering Memorandum. All of the foregoing is subject to change, possibly with retroactive effect, or different interpretations, either of which could affect the general discussion below.

This general discussion deals only with certain U.S. federal income tax considerations relating to the purchase ownership and disposition of certain Notes treated as debt for U.S. federal income tax purposes that are in registered form. No rulings from the U.S. Internal Revenue Service (“IRS”) have been nor will be sought regarding the characterization of the Notes or any matter discussed herein. We cannot assure you that the IRS would not assert, or that a court would not sustain, a position contrary to any of the statements made and conclusions reached with respect to the U.S. tax consequences of purchasing, owning or disposing of the Notes.

This discussion is for general information purposes only and does not address all of the tax consequences that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under U.S. federal income tax laws including but not limited to: a “controlled foreign corporation”; a “passive foreign investment company”; banks and other financial institutions; insurance companies; pension funds; securities dealers or traders electing mark-to-market treatment; certain governmental entities; holders subject to the alternative minimum tax; regulated investment companies; real estate investment trusts; tax-exempt organizations; partnerships, any entities treated as partnerships for U.S. federal income tax purposes, other passthrough entities, or an investor in any such entities that hold Notes; persons that hold the notes as a position in a “straddle” or as part of a synthetic security or “hedge”, “conversion transaction” or other integrated investment; persons subject to special tax accounting rules under Section 451(b) of the Code; persons that have a “functional currency” other than the U.S. dollar; tax-deferred or other retirement accounts; S Corporations; and certain U.S. expatriates.

This discussion does not address the effects of any state, local or non-U.S. tax laws. Moreover, it does not address the tax laws of any state, locality or other political subdivision of the United States, non-income tax (such as the U.S. federal estate and gift tax), or alternative minimum tax consequences of the acquisition, ownership and disposition of the Notes, or the indirect consequences to holders of equity interests in a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) that owns Notes.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) owns Notes, the tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership owning the Notes. Such a partner or partnership considering the acquisition of the Notes should consult its own tax advisors.

As used herein, “U.S. Holder” means a beneficial owner of the Notes that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any State or political subdivision thereof, or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons (as defined in Section 7701(a)(30) of the Code (a “U.S. person”)) have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

THIS DISCUSSION IS NOT INTENDED AS LEGAL ADVICE. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE AND LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF NOTES.

Characterization of the Notes

As described under “Description of the Notes — Additional Amounts,” U.S. Holders of the Notes will generally be entitled to Additional Amounts with respect to Mongolian withholding tax withheld from the payments on the Notes. We intend to take the position that this should not cause the Notes to be treated as contingent payment debt instruments for U.S. federal income tax purposes. Our determination that the Notes should not be treated as contingent payment debt instruments is binding on a U.S. Holder unless such U.S. Holder discloses its contrary position in the manner required by the applicable Treasury Regulations. Assuming such position is respected, a U.S. Holder would be required to include in income

the amount of any such additional payments at the time such payments are received or accrued in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes. If the IRS successfully challenged this position, and the Notes were treated as contingent payment debt instruments,

U.S. Holders could be required to accrue interest income at a rate higher than their yield to maturity, and to treat as ordinary income, rather than capital gain, any gain recognized on a sale, exchange, retirement or redemption of such a Note. This disclosure assumes that the Notes will not be considered contingent payment debt instruments. U.S. Holders are urged to consult their own tax advisors regarding the potential application to the Notes of the contingent payment debt instrument rules and the consequences thereof.

Original Issue Discount and Payments of Stated Interest

The Notes may be issued with original issue discount ("OID") for U.S. federal income tax purposes. In such event, U.S. Holders generally will be required to include such OID in gross income (as ordinary income) for U.S. federal income tax purposes on an annual basis under a constant yield accrual method regardless of their regular method of accounting for U.S. federal income tax purposes. As a result, U.S. Holders will generally include any OID in income in advance of the receipt of cash attributable to such income.

The Notes will be treated as issued with OID if the stated principal amount of the Notes exceeds their issue price (as defined above) by an amount equal to or greater than a statutorily defined de minimis amount (generally, 0.0025 multiplied by the stated principal amount and the number of complete years to maturity from the issue date).

In the event that the Notes are issued with OID, the amount of OID with respect to a Note includible in income by a U.S. Holder is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion thereof in which such U.S. Holder holds such Note. A daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID that accrued in such period. The accrual period of a Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or last day of an accrual period. The amount of OID that accrues with respect to any accrual period is the excess of (i) the product of the Note's "adjusted issue price" at the beginning of such accrual period and its "yield to maturity," determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over (ii) the amount of stated interest allocable to such accrual period. The adjusted issue price of a Note at the start of any accrual period is equal to its issue price, increased by the accrued OID for each prior accrual period and decreased by any payments other than stated interest. The yield to maturity of a Note is the discount rate that, when used in computing the present value of all principal and interest payments to be made under the Note, produces an amount equal to the issue price of the Note.

Interest paid on a Note and any Additional Amounts with respect to withholding tax on the Notes (including the amount of tax withheld from payments of interest and Additional Amounts) will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

Interest income earned and OID, if any, accrued by a U.S. Holder with respect to a Note will generally constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the U.S. Holder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisers about the application of such rules to them in their particular circumstances, including with respect to recently issued Treasury Regulations and IRS Notices addressing additional requirements to be met for a foreign tax to be creditable. U.S. Holders should be aware that there is currently no tax treaty between the United States and Mongolia and Mongolian taxes withheld may not be currently creditable.

Sale, exchange, redemption, or other taxable disposition

Upon the sale, exchange, redemption or other taxable disposition of the Notes, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or other taxable disposition (other than amounts attributable to accrued but unpaid stated interest, which amounts generally will be taxable as ordinary interest income to the extent not previously included in gross income) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the acquisition cost of the Note, increased by prior accruals of OID. Any such gain or loss generally will be capital gain or loss, and will be long term capital gain or loss if, at the time of its sale, exchange, retirement or other taxable disposition, the Note has been held for more than one year. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential tax rates in respect of long term capital gains. The deductibility of capital losses is subject to limitations under the Code.

If any Mongolian or other foreign income tax is withheld on the sale, exchange, retirement or other taxable disposition of a Note, the amount realized by a U.S. Holder will include the gross amount of the proceeds (including any Additional Amounts) of that sale, exchange, retirement or other taxable disposition before deduction of such tax. Capital gain or loss, if any, recognized by a U.S. Holder on the sale, exchange, retirement or other taxable disposition of a Note generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from the sale, exchange, retirement or other taxable disposition of a Note that is subject to a Mongolian or other foreign income tax, the U.S. Holder may not be able to benefit from the foreign tax credit for the tax unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits in their particular circumstances, including with respect to recently issued Treasury Regulations and IRS Notices addressing additional requirements to be met for a foreign tax to be creditable. U.S. Holders should be aware that there is currently no tax treaty between the United States and Mongolia and Mongolian taxes withheld may not be currently creditable.

Information reporting and backup withholding

In general, payments of interest and principal and accruals of OID, if any, on the Notes and proceeds from a sale, exchange, redemption or other taxable disposition of the Notes may be subject to information reporting to the IRS and backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9. U.S. Holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

Information with Respect to Foreign Financial Assets

Certain owners of "specified foreign financial assets" with an aggregate value in excess of US\$50,000 (and in some circumstances, a higher threshold), will generally be required to file an information report on IRS Form 8938 with respect to such assets with their U.S. federal tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties, and (iii) interests in foreign entities. Such reporting requirement may also apply to certain non-individual holders. U.S. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Notes.

Medicare Tax

Certain U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to an additional 3.8% Medicare tax on some or all of such U.S. Holder's "net investment income." Net investment income generally includes interest and OID accruals on, and gain from the disposition of, the Notes unless such interest income or gain is derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders should consult their tax advisors regarding the effect this tax may have, if any, on their acquisition, ownership or disposition of the Notes.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") may impose withholding tax on "foreign passthru payments" on obligations issued (or deemed re-issued) after the date that is six months after the date on which final regulations defining the term "foreign passthru payment" are filed with the Federal Register. Under proposed Treasury Regulations, which may be relied upon by taxpayers until final Treasury Regulations are published, this withholding tax will not apply to payments made prior to two years after the date on which final Treasury Regulations on this issue are published. Whether or not FATCA withholding tax could apply to "foreign passthru payments" on the Notes may depend upon an applicable IGA relating to FATCA between the United States and the jurisdiction of the Bank, or any other payor of payments made on the Notes.

No additional amounts will be paid in respect of any tax withheld under the FATCA rules or any rules or laws implementing an Intergovernmental Agreement from payments on the Notes. Potential investors should consult their tax advisers regarding the implications of the FATCA rules or any rules or laws implementing an IGA for their investment in Notes, including the implications resulting from the status under these rules of each financial intermediary through which they hold Notes.

THE ABOVE DISCUSSION IS NOT LEGAL ADVICE RELATING TO THE ACQUISITION, OWNERSHIP OR DISPOSITION OF THE NOTES. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISOR CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATION.

SINGAPORE TAXATION

The statements below are general in nature and are based on certain aspects of current tax laws in Singapore and administrative guidelines and circulars issued by the IRAS and the Monetary Authority of Singapore ("MAS") in force as at the date of this Offering Memorandum and are subject to any changes in such laws, administrative guidelines or circulars, or the interpretation of those laws, guidelines or circulars, occurring after such date, which changes could be made on a retroactive basis. These laws, guidelines and circulars are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. Neither these statements nor any other statements in this Offering Memorandum are intended or are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements made herein do not purport to be a comprehensive or exhaustive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or financial institutions in Singapore which have been granted the relevant Financial Sector Incentive(s)) may be subject to special rules or tax rates. Holders or prospective holders of the Notes are advised to consult their own professional tax advisers as to the Singapore or other tax consequences of the acquisition, ownership, or disposal of the Notes, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. It is emphasized that none of the Issuer, the Joint Global Coordinators and Joint Bookrunners or any other persons involved in the issuance of the Notes accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Notes.

Interest and Other Payments

Certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including:

- (a) interest from debt securities derived on or after January 1, 2004;
- (b) discount income (not including discount income arising from secondary trading) from debt securities derived on or after February 17, 2006; and
- (c) early redemption fee or redemption premium from debt securities derived on or after February 15, 2007,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession.

Capital Gains

Any gains considered to be in the nature of capital made from the sale of the Notes will not be taxable in Singapore. However, any gains derived by any person from the sale of the Notes which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature. With effect from January 1, 2024, any gain derived by an entity of a relevant group from the sale of the Notes may be taxable if the gain would be received in Singapore unless the entity has sufficient economic substance in Singapore.

Holders of the Notes who apply or who are required to apply the Financial Reporting Standard (“FRS”) 39, FRS 109 or Singapore Financial Reporting Standard (International) 9 (“SFRS(I) 9”) (as the case may be) may for Singapore income tax purposes be required to recognize gains or losses (not being gains or losses in the nature of capital) on the Notes, irrespective of disposal, in accordance with FRS 39, FRS 109 or SFRS(I) 9 (as the case may be). See “— Adoption of FRS 39, FRS 109 and SFRS(I) 9 for Singapore Income Tax Purposes.”

Adoption of FRS 39, FRS 109 and SFRS(I) 9 for Singapore Income Tax Purposes

Section 34A of the ITA provides for the tax treatment for financial instruments in accordance with FRS 39 (subject to certain exceptions and “opt-out” provisions) to taxpayers who are required to comply with FRS 39 for financial reporting purposes. The IRAS has also issued an e-Tax Guide entitled “Income Tax Implications Arising from the Adoption of FRS 39 Financial Instruments: Recognition & Measurement.”

FRS 109 or SFRS(I) 9 (as the case may be) is mandatorily effective for annual periods beginning on or after January 1, 2018, replacing FRS 39. Section 34AA of the ITA requires taxpayers who comply or who are required to comply with FRS 109 or SFRS(I) 9 for financial reporting purposes to calculate their profit, loss or expense for Singapore income tax purposes in respect of financial instruments in accordance with FRS 109 or SFRS(I) 9 (as the case may be), subject to certain exceptions. The IRAS has also issued an e-Tax Guide entitled “Income Tax: Income Tax Treatment Arising from Adoption of FRS 109 Financial Instruments.”

Holders of the Notes who may be subject to the tax treatment under Sections 34A or 34AA of the ITA should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Notes.

Estate Duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after February 15, 2008.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Mayer Brown LLP as to matters of U.S. federal and New York law and FLC (Financial Law Consulting) LLC as to matters of Mongolian law. Certain legal matters will be passed upon for the Initial Purchasers by Allen Overy Shearman Sterling (Asia) Pte Ltd as to matters of U.S. federal and New York law and Melville Erdenedalai (M&E) LLP as to matters of Mongolian law.

INDEPENDENT AUDITORS

Our financial statements as of and for each of the years ended December 31, 2021 and 2022 included in this Offering Memorandum which have been prepared in accordance with IFRS have been audited by PricewaterhouseCoopers Audit LLC, independent public accountants, as stated in their reports included in this Offering Memorandum. The independent auditors' report issued in connection with the audit of the financial statements for 2022 contains the following 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." The financial statements and independent auditor's report for year ended December 31, 2022 have not been specifically prepared for inclusion in this Offering Memorandum.

Our financial statements as of and for the year ended December 31, 2023 included in this Offering Memorandum have been audited by KPMG Audit LLC, independent public accountants, as stated in their report, which includes an emphasis of matter paragraph related to the correction of a misstatement in the liquidity risk and currency risk disclosures, included in this Offering Memorandum.

See "Financial Data" and the financial statements included in this Offering Memorandum for more information.

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GOLOMT BANK

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

31 December 2023

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GOLOMT BANK JSC

Corporate Information

Incorporation decision

Golomt Bank (the "Bank") was incorporated on 06 March 1995.

Certificate and License

The Bank holds the State Registration Certificate No. 9007001012 with registration No.2075377 newly granted to the Bank by the State Registration Office of Mongolia on 7 April 2023.

The Bank holds the Special License No. 25 for Banking Activities dated 06 March 1995 issued by the Bank of Mongolia.

Board of Governors

Ch. Munkhtsetseg	<i>Chairwoman</i>
Urs E. Schwarzenbach	<i>Member</i>
D. Munkhtur	<i>Member</i>
L. Bolormaa	<i>Member</i>
O.Ganjoloo	<i>Member</i>
J. Unenbat	<i>Member</i>
López Abelló	<i>Independent Member</i>
James B. Dwyer	<i>Independent Member</i>
Alexander Picker	<i>Independent Member</i>
Van Zwieten	<i>Independent Member</i>

Executive Officers

K. Norihiko	<i>Chief Executive Officer</i>
G. Ganbold	<i>President</i>
A. Odonbaatar	<i>Deputy Chief Executive Officer</i>
M. Sainbileg	<i>Chief Information Officer</i>
S. Munkhtuya	<i>Director of Financial Management Division</i>
M. Narankhuu	<i>Director of Credit Division</i>
T. Otgon	<i>Director of Risk Management Division</i>
B. Sodboldor	<i>Director of Treasury Management Division</i>
Ts. Baigalmaa	<i>Director of Retail Business Division</i>
N. Ochirkhuyag	<i>Director of Marketing and PR Division</i>
G. Uyanga	<i>Director of Human Resource Management Division</i>
B. Sugar-Erdene	<i>Director of Corporate Banking Division</i>
A. Ganchimeg	<i>Director of SME Banking Division</i>
Yo. Purevbat	<i>Director of Operation Division</i>
B. Enkhzaya	<i>Director of International Banking Division</i>
Kh. Purevdorj	<i>Director of Administration Division</i>
O. Battsengel	<i>Director of Information Technology Division</i>
A. Nyamsuren	<i>Director of Business Process Management Division</i>

Registered office

Head Office of Golomt bank
Sukhbaatar Square 5,
P.O.Box 22
Ulaanbaatar 15160, Mongolia

Auditors

KPMG Audit LLC
Blue Sky, Floor 6, Suite 602, Peace Avenue 17, SBD-1, Ulaanbaatar 14240, Mongolia

Management's responsibility statement

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

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

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

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

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

The financial statements of the Bank for the year ended 31 December 2023 were authorized for issuance by the Bank's management. The previous financial statements were authorized on 27 March 2024. Following this, management made a restatement as described in the Note 38.6, leading to the restated financial statements being authorized for issuance on 11 April 2024 by the Bank's management.

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

(Note: A red stamp of Golomt Bank JCS is visible in the background of the signatures.)

Ulaanbaatar,
Mongolia

Date: 11 April 2024



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Independent Auditors' Report

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

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 38.6 to the financial statements, which describes the effects of restatement of the financial statements as at and for the year ended 31 December 2023. The Bank identified misstatements on the liquidity risk disclosure and currency risk disclosure on the financial statements as at and for the year ended 31 December 2023. Such restatement caused us to perform additional procedures over those disclosures and amend our report previously issued at 27 March 2024, which is withdrawn and cannot be relied upon. Our opinion is not modified in respect of this matter.

Key Audit Matter

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

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Key Audit Matter, Continued

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

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

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

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

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 30 March 2023.

Other Information

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

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



Other Information, Continued

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and describe actions applicable in the jurisdiction.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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



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

- 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

KPMG AUDIT LLC

KPMG Audit LLC

Ulaanbaatar, Mongolia

27 March 2024, except as to Note 38.6, which is as at 11 April 2024

of completion of audit procedure restricted to amendment described in Note 38.6.

Signed by:

Soyolmaa Gungaanyambuu
General Director

Approved by:

Pyung-Sik Kong
Partner

This report is effective as at 27 March 2024, except as to Note 38.6, which is as at 11 April 2024 of completion of audit procedure restricted to amendment described in Note 38.6, the audit report dates. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholders of the Bank. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

Golomt Bank JSC
Statement of Financial Position

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

The notes set out on pages 11 to 141 form an integral part of these financial statements.

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Golomt Bank JSC
Statement of Profit or Loss and Other Comprehensive Income

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

The notes set out on pages 11 to 141 form an integral part of these financial statements.

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Golomt Bank JSC
Statement of Changes in Equity
31 December 2023

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

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

The notes set out on pages 11 to 141 form an integral part of these financial statements.

Golomt Bank JSC
Statement of Cash Flow

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

Golomt Bank JSC
Statement of Cash Flow

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

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

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

1 Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Operating Environment of the Bank

2.1 General

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

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

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

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

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

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

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

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

2 Operating Environment of the Bank (continued)

2.2 Currency transactions

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

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

3 Basis of Presentation

3.1 General principles

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

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

3.2 Functional and presentation currency

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

3.3 Critical accounting estimates and judgments in applying accounting policies

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

3.3.1 ECL measurement

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

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

3 Basis of Preparation (continued)

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

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

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

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

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

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

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

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

3 Basis of Preparation (continued)

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

3.3.4 Business model assessment

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

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

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

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

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

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

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

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

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

3 Basis of Preparation (continued)

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

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

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

3.3.6 Modification of financial assets

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

3.3.7 Write-off policy

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

3.3.8 Initial recognition of related party transactions

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

3.3.9 Valuation of premises and investment properties

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

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

3 Basis of Preparation (continued)

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

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

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

3.3.10 Determining lease term

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

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

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

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

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

3.3.12 Mongolian Mortgage Corporation LLC (MIK) securitisation transaction

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

3 Basis of Preparation (continued)

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

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

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

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

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

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

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

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

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

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

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

3 Basis of Preparation (continued)

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

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

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

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

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

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

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

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

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

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

3 Basis of Preparation (continued)

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

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

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

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

3.3.16 Fair value of long-term derivatives

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

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

3.3.17 Initial recognition of other financial instruments below market rate

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

4 Material Accounting Policies

Material accounting policy information

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

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

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

4.1 Financial assets

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

(i) Key measurement terms

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

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

4 Material Accounting Policies (continued)

4.1 Financial assets (continued)

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

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

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

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

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

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

4 Material Accounting Policies (continued)

4.1 Financial assets (continued)

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

(ii) Initial recognition of financial instrument

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

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

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

(iii) Classification and subsequent measurement – measurement categories

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

(iv) Classification and subsequent measurement – business model

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

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

4 Material Accounting Policies (continued)

4.1 Financial assets (continued)

(v) Classification and subsequent measurement – cash flow characteristics

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

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

(vi) Reclassification

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

(vii) Credit loss allowance for ECL

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

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

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

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

4 Material Accounting Policies (continued)

4.1 Financial assets (continued)

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

(viii) Write-off

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

(ix) De-recognition of financial assets

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

(x) Modification

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

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

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

4 Material Accounting Policies (continued)

4.2 Foreign currency translation

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

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

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

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

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

4.3 Cash and cash equivalents

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

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

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

4.4 Mandatory cash balances with the Central Bank of Mongolia

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

4.5 Due from other banks

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

4 Material Accounting Policies (continued)

4.6 Investment in debt securities

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

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

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

4.7 Investments in equity securities

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

4.8 Derivative financial instruments

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

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

4.9 Loans and advances to customers

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

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

4 Material Accounting Policies (continued)

4.10 Assets Classified as Held for Sale

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

4.11 Offsetting

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

4.12 Financial liabilities

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

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

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

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

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

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

4 Material Accounting Policies (continued)

4.12 Financial liabilities (continued)

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

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

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

4.13 Repurchase and reverse repurchase agreements

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

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

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

4.14 Premises and equipment

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

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

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

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

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

4 Material Accounting Policies (continued)

4.14 Premises and equipment (continued)

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

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

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

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

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

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

4.15 Investment property

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

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

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

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

4 Material Accounting Policies (continued)

4.16 Intangible assets

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

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

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

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

4.17 Leases

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

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

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

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

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

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

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

4 Material Accounting Policies (continued)

4.17 Leases (continued)

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

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

4.18 Share capital and preferred shares

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

4.19 Treasury shares

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

4.20 Share premium

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

4.21 Share-based payments

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

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

4.22 Dividends

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

4 Material Accounting Policies (continued)

4.23 Contingent assets and liabilities

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

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

4.24 Credit related commitments

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

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

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

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

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

4.25 Provisions

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

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

4 Material Accounting Policies (continued)

4.26 Taxation

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

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

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

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

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

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

4.27 Employee benefits and social contributions

(i) Short-term benefits

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

(ii) Defined contribution plans

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

4 Material Accounting Policies (continued)

4.28 Income and expense recognition

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

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

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

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

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

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

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

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

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

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

4 Material Accounting Policies (continued)

4.29 Repossessed collateral

Reposessed 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 'Reposessed 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 reposessed 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 reposessed 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 reposessed collateral, the Bank applies the accounting policy for inventories and keep them in line 'Reposessed 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 reposessed assets, which are planned to be sold, refer to Note 18.

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

4.30 Inventories

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

4.31 Precious metals

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

5 Adoption of New or Revised Standards and Interpretations

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

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

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

6 New Accounting Pronouncements

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

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

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

7 Cash and Cash Equivalents

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

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

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

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

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

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

8 Mandatory cash balances with the Bank of Mongolia

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

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

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

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

9 Due from Other Banks

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

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

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

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

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

10 Investments in Debt Securities

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

10 Investments in Debt Securities (continued)

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

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

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

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

(a) Treasury bills of the Bank of Mongolia

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

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

10 Investments in Debt Securities (continued)

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

(b) MIK bonds

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

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

(c) Government bonds

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

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

(d) SFC bonds

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

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

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

(e) Corporate bonds

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

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

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

10 Investments in Debt Securities (continued)

Investments in debt securities at FVTOCI

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

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

The following table discloses government bonds measured at FVTOCI:

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

The following table discloses corporate bonds measured at FVTOCI:

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

10 Investments in Debt Securities (continued)

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

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

<i>In thousands of Mongolian Tugriks</i>	Credit loss allowance Stage 1 (12-months ECL)	Gross carrying value Stage 1 (12-months ECL)
<i>Treasury bills of the Bank of Mongolia at FVTOCI</i>		
At 1 January 2023	909,136	743,009,418
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	2,149,817	12,101,844,840
Derecognised during the period	(909,136)	(11,886,819,418)
At 31 December 2023	2,149,817	978,034,840
<i>Government bonds at FVTOCI</i>		
At 1 January 2023	3,208,263	209,007,375
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	2,844,108	359,520,833
Derecognised during the period	(590,622)	(161,117,877)
Total gross carrying value	5,461,749	407,410,331
<i>Movements without impact on credit loss allowance charge for the period:</i>		
FX and other movements	-	(3,046,117)
At 31 December 2023	5,461,749	404,364,214
<i>Corporate bonds at FVTOCI</i>		
At 1 January 2023	1,033,273	56,341,576
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	2,813	1,705,345
Derecognised during the period	(956,706)	(9,164,912)
Total gross carrying value	79,380	48,882,009
<i>Movements without impact on credit loss allowance charge for the period:</i>		
FX and other movements	-	899,317
At 31 December 2023	79,380	49,781,326

10 Investments in Debt Securities (continued)

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

<i>In thousands of Mongolian Tugriks</i>	Credit loss allowance Stage 1 (12-months ECL)	Gross Carrying value Stage 1 (12-months ECL)
Treasury bills of the Bank of Mongolia at FVTOCI		
At 1 January 2022	951,283	1,563,953,019
<i>Movements with impact on credit loss allowance charge for the period:</i>		
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
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	532,471	12,699,418
Total gross carrying value	3,208,263	201,524,935
<i>Movements without impact on credit loss allowance charge for the period:</i>		
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
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	172,000	3,676,959
Total gross carrying value	1,033,273	64,187,562
<i>Movements without impact on credit loss allowance charge for the period:</i>		
FX and other movements	-	12,849,960
Fair value adjustment from AC to FV	-	(20,695,946)
At 31 December 2022	1,033,273	56,341,576

10 Investments in Debt Securities (continued)

Investments in debt securities at AC

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

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

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

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

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

10 Investments in Debt Securities (continued)

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

<i>In thousands of Mongolian Tugriks</i>	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
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	(4,182)	-
Changes in accrued interest	-	9,690
Total movements with impact on credit loss allowance charge for the period	(4,182)	9,690
As at 31 December 2022	61,009	4,759,631

11 Investments in Equity Securities

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

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

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

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

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

11 Investments in Equity Securities (continued)

(a) Investments in equity securities at FVTPL

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

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

(b) Investments in equity securities at FVTOCI

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

12 Loans and Advances to Customers

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

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

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

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

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

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

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

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

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Notes to the Financial Statements – 31 December 2023

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

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Notes to the Financial Statements – 31 December 2023

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

Golomt Bank JSC
Notes to the Financial Statements – 31 December 2023

12 Loans and Advances to Customers (continued)

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

Golomt Bank JSC
Notes to the Financial Statements – 31 December 2023

12 Loans and Advances to Customers (continued)

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

Golomt Bank JSC

Notes to the Financial Statements – 31 December 2023

12 Loans and Advances to Customers (continued)

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

Golomt Bank JSC
Notes to the Financial Statements – 31 December 2023

12 Loans and Advances to Customers (continued)

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

Golomt Bank JSC

Notes to the Financial Statements – 31 December 2023

12 Loans and Advances to Customers (continued)

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

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Notes to the Financial Statements – 31 December 2023

12 Loans and Advances to Customers (continued)

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

12 Loans and Advances to Customers (continued)

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

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

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

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

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

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

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

12 Loans and Advances to Customers (continued)

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

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

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

12 Loans and Advances to Customers (continued)

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

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

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

12 Loans and Advances to Customers (continued)

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

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

12 Loans and Advances to Customers (continued)

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

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

12 Loans and Advances to Customers (continued)

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

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

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

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

12 Loans and Advances to Customers (continued)

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

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

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

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

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

12 Loans and Advances to Customers (continued)

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

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

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

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

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

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

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

12 Loans and Advances to Customers (continued)

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

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

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

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

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

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

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

13 Investment Properties

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

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

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

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

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

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

Accounting policy for investment properties is disclosed in Note 4.15.

14 Other Assets

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

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

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

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

14 Other Assets (continued)

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

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

14 Other Assets (continued)

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

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

14 Other Assets (continued)

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

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

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

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

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

15 Intangible Assets

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

Golomt Bank JSC

Notes to the Financial Statements – 31 December 2023

16 Premises and Equipment

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

16 Premises and Equipment (continued)

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

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

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

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

17 Right of Use Assets

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

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

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

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

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

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

17 Right of Use Assets (continued)

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

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

18 Repossessed Collateral

<i>In thousands of Mongolian Tugriks</i>	31 December 2023	31 December 2022
Reposessed collaterals, net	-	43,191,321

Reposessed 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 reposessed collateral in the form of financial asset such as equity securities, Bank accounts them for IFRS measurement purposes as investments in equity or debt securities and measures them at fair value. The assets were initially recognised at fair value less cost to sell when acquired.

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

19 Assets Classified as Held for Sale

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

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

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

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

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

20 Due to Other Banks

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

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

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

21 Customer Accounts

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

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

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

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

22 Other Borrowed Funds

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

(a) Borrowed funds under projects

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

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

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

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

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

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

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

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

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

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

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

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

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

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

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

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

22 Other Borrowed Funds (continued)

(b) Borrowings from foreign banks and financial institutions

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

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

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

(c) Trade finance from foreign banks and financial institutions

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

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

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

23 REPO Arrangements

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

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

Reverse sale and repurchase agreement

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

24 Other Liabilities

Other liabilities comprise the following:

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

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

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

25 Share Capital

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

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

25 Share Capital (Continued)

Ordinary shares:

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

During 2023, the Bank did not issue shares.

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

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

26 Interest Income and Expense

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

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

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

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

27 Fee and Commission Income and Expense

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

28 Other Operating Income

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

29 Administrative and Other Operating Expenses

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

Total administrative and other operating expenses	200,159,282	175,345,911

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

Significant increase in staff costs related to salary increases.

30 Other gains/(losses), net

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

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

31 Income Taxes

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

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

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

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

The Bank provides for income taxes on the basis of income for financial reporting purposes, adjusted for items which are not assessable or deductible for income tax purposes. The income tax rate for profits of the Bank is 10% for the first MNT 6 billion (2022: MNT 6 billion) of taxable income, and 25% (2022: 25%) on the excess of taxable income over MNT 6 billion (2022: MNT 6 billion) in accordance with Mongolian tax legislation.

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

(c) Deferred taxes analysed by type of temporary difference

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

31 Income Taxes (continued)

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

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

31 Income Taxes (continued)

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

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

32 Other Comprehensive Income Recognised in Each Component of Equity

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

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

33 Dividends

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

34 Earnings per Share

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

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

35 Reconciliation of Liabilities Arising from Financing Activities

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

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

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

36 Segment Analysis

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

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

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

Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages.

Mortgages – incorporating the provision of mortgage finance;

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

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

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

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

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

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

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

36 Segment Analysis (continued)

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

31 December 2023					
<i>In thousands of Mongolian Tugriks</i>	Corporate	SME	Retail	Other	Total
Loans and advances to customers	1,310,692,932	1,206,723,110	2,194,692,663	-	4,712,108,705
Customer accounts	3,124,424,067	1,441,420,318	3,470,789,270	-	8,036,633,655
Investments in debt securities	310,067,985	-		1,423,024,635	1,733,092,620
Investments in equity securities	23,634,110	373,638	-	75,075	24,082,823
<i>In thousands of Mongolian Tugriks</i>	Corporate	SME	Retail	Other	Total
Interest and other similar income	167,189,372	145,514,118	284,480,158	243,548,907	840,732,555
Interest and other similar expense	(56,399,067)	(24,121,324)	(200,108,090)	(82,811,958)	(363,440,439)
Net internal Funds Transfer Pricing ("FTP") income/expense	20,678,528	(1,607,864)	105,267,204	(124,337,868)	-
Net interest income	131,468,833	119,784,930	189,639,272	36,399,081	477,292,116
Credit loss allowance	6,624,443	7,258,275	13,505,207	686,775	28,074,700
Net interest income / (negative interest margin) after expected credit loss	138,093,276	127,043,205	203,144,479	37,085,856	505,366,816
Fee and commission income	12,759,748	34,048,456	54,872,438	490,248	102,170,890
Fee and commission expense	(9,419,018)	(16,502,640)	(28,427,911)	(5,840,848)	(60,190,417)
Net other non-interest income/expense	9,539,239	17,118,046	8,047,833	(115,858,029)	(81,152,911)
Administrative and other operating expenses	(41,619,546)	(50,186,530)	(100,374,820)	(7,978,386)	(200,159,282)
Profit before tax	109,353,699	111,520,537	137,262,019	(92,101,159)	266,035,096

36 Segment Analysis (continued)

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

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

<i>In thousands of Mongolian Tugriks</i>	31 December 2022				
	Corporate	SME	Retail	Other	Total
Loans and advances to customers	1,085,673,848	930,075,462	1,681,884,035	-	3,697,633,345
Customer accounts	1,581,658,356	1,146,662,149	3,014,977,362	-	5,743,297,867
Investments in debt securities	277,652,992	-	-	952,598,017	1,230,251,009
Investments in equity securities	22,103,523	337,321	-	72,647	22,513,491
<i>In thousands of Mongolian Tugriks</i>	31 December 2022				
	Corporate	SME	Retail	Other	Total
Interest and other similar income	129,239,932	117,194,698	199,020,671	164,453,864	609,909,165
Interest and other similar expense	(21,730,573)	(13,999,865)	(125,094,622)	(63,513,322)	(224,338,382)
Net internal Funds Transfer Pricing ("FTP") income/expense	(46,016,951)	(35,714,448)	45,213,875	36,517,524	-
Net interest income	61,492,408	67,480,385	119,139,924	137,458,066	385,570,783
Credit loss allowance	(72,990,625)	3,187,115	23,834,022	-	(45,969,488)
Net interest income / (negative interest margin) after expected credit loss	(11,498,217)	70,667,500	142,973,946	137,458,066	339,601,295
Fee and commission income	12,770,871	31,761,145	39,062,984	536,978	84,131,978
Fee and commission expense	-	(1,367,330)	(28,614,936)	(9,978,919)	(39,961,185)
Net other non-interest income/expense	9,677,959	8,366,996	18,096,308	(50,769,456)	(14,628,194)
Administrative and other operating expenses	(26,691,610)	(31,945,254)	(105,125,669)	(11,583,378)	(175,345,911)
Profit before tax	(15,740,997)	77,483,057	66,392,633	65,663,291	193,797,984

37 Significant Non-cash Investing and Financing Activities

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

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

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

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

38 Financial Risk Management

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

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

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

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

38 Financial Risk Management (continued)

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

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:

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

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

38 Financial Risk Management (continued)

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 draw-downs on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the commitment amounts to an on-balance sheet exposure. The Bank's management estimates that 12-month and lifetime.

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

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

38 Financial Risk Management (continued)

38.1 Credit risk (continued)

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

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

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

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

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

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

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

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

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

The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (corporate, SME, consumer and mortgage), currency of exposure and product type.

38 Financial Risk Management (continued)

38.1 Credit risk (continued)

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 approach to LGD measurement can be divided into three possible approaches:

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

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

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

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

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

38 Financial Risk Management (continued)

38.1 Credit risk (continued)

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

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

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

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

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

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

According to our bank's experience we never encountered loss due to other bank's default or bankruptcy. Nevertheless, we accept that there is possibility of default in future. But our own data is insufficient to account for that possibility. As such we have following differences in measuring PD, LGD, EAD for due from other banks. The criteria used for the Bank in defining due from other banks is same as general ECL method for loans, except that it includes credit rating of "C" and below, which is defined as "in default" by Agencies.

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

Average Cumulative Issuer-Weighted Global Default rates be Alphanumeric Rating, 1983-2022¹

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

For exposure at default (EAD), the Bank uses carrying amount at the time of calculation as the exposure at default. For loss given default (LGD), historical data for loss given default analysis is also insufficient. Therefore, we use Moody's report of corporate recovery rate for LGD.

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

38 Financial Risk Management (continued)

38.1 Credit risk (continued)

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

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

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

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

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

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

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

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

For probability of default (PD), as the most debt securities are from sovereign sector issuer, the Bank uses Moody’s report² on one-year default rate of sovereign for 12-month PD, which is downscaled to 1 day same as due from other banks.

Issuer-Weighted Cumulative Sovereign Default Rates, 1983-2022²

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

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

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

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

38 Financial Risk Management (continued)

38.1 Credit risk (continued)

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

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

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

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

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

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

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

38 Financial Risk Management (continued)**38.1 Credit risk (continued)**

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

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

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

38 Financial Risk Management (continued)

38.1 Credit risk (continued)

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

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

38 Financial Risk Management (continued)

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.

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.

38 Financial Risk Management (continued)

38.3 Currency risk (continued)

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.

38.3.1 Exposure to foreign currency exchange

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

<i>In thousands of Mongolian Tugriks</i>	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with the Bank of Mongolia	500,249,111	806,611,532	57,344,920	353,379,195	1,717,584,758
Mandatory cash balances with the Bank of Mongolia	157,467,328	311,462,627	-	-	468,929,955
Reverse sale and repurchase agreement	646,835,976	-	-	-	646,835,976
Due from other banks	5,433,480	1,219,150,129	30,164,393	148,906,331	1,403,654,333
Investments in debt securities	1,239,306,602	493,786,018	-	-	1,733,092,620
Loans and advances to customers	4,572,462,547	137,332,853	283,706	2,029,599	4,712,108,705
Other financial assets	55,585,230	(80,367)	63,309	195,969	55,764,141
Total monetary financial assets	7,177,340,274	2,968,262,792	87,856,328	504,511,094	10,737,970,488
Monetary financial liabilities					
Due to other banks	102,818,117	10,457,077	14,505,900	3,210,762	130,991,856
Customer accounts	4,803,421,646	2,692,218,996	71,484,444	469,508,569	8,036,633,655
- Current Accounts	2,206,780,141	1,615,014,786	37,247,727	203,668,625	4,062,711,279
- Demand Savings	331,568,185	161,752,602	13,243,341	10,373,783	516,937,911
- Term deposits	2,265,073,320	915,451,608	20,993,376	255,466,161	3,456,984,465
Other borrowed funds	349,787,396	1,058,377,457	461,538	2,302,331	1,410,928,722
REPO arrangements	547,659,994	164,014,169	-	-	711,674,163
Other financial liabilities	156,297,005	19,909,083	1,261,976	5,958,935	183,426,999
Total monetary financial liabilities	5,959,984,158	3,944,976,782	87,713,858	480,980,597	10,473,655,395
Derivatives	(841,097,939)	1,040,696,600	(52,565)	(50,114)	199,495,982
Net balance sheet position (restated*)	376,258,177	63,982,610	89,905	23,480,383	463,811,075

*Please refer to Note 38.6 for Summary of quantitative impacts of restatements.

38 Financial Risk Management (continued)

38.3 Currency risk (continued)

38.3.1 Exposure to foreign currency exchange (continued)

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

*In thousands of Mongolian
Tugriks*

	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with the Bank of Mongolia	798,739,886	143,544,872	63,356,714	136,762,618	1,142,404,090
Mandatory cash balances with the Bank of Mongolia	110,266,797	247,315,162	-	-	357,581,959
Due from other banks	1,954,810	1,475,505,273	9,542,401	79,960,896	1,566,963,380
Investments in debt securities	917,160,109	313,090,900	-	-	1,230,251,009
Loans and advances to customers	3,451,538,853	227,028,816	18,562,835	502,841	3,697,633,345
Other financial assets	26,367,271	1,197,605	91,116	121,073	27,777,065
Total monetary financial assets	5,306,027,726	2,407,682,628	91,553,066	217,347,428	8,022,610,848
Monetary financial liabilities					
Due to other banks	40,411,791	9,693,059	1,444,341	845,572	52,394,763
Customer accounts	3,422,863,051	2,038,233,479	79,220,034	202,981,303	5,743,297,867
- Current Accounts	1,578,690,458	985,660,916	47,332,381	146,381,199	2,758,064,954
- Demand Savings	210,674,967	173,810,898	13,338,848	28,011,258	425,835,971
- Term deposits	1,633,497,626	878,761,665	18,548,804	28,588,847	2,559,396,942
Other borrowed funds	480,966,640	1,419,768,033	12,034,996	3,542,423	1,916,312,092
REPO arrangements	169,906,728	41,440,916	-	-	211,347,644
Other financial liabilities	92,502,570	19,654,679	608,318	2,346,723	115,112,290
Total monetary financial liabilities	4,206,650,780	3,528,790,166	93,307,689	209,716,021	8,038,464,656
Derivatives (restated*)	(1,098,491,328)	1,517,378,329	1,504,298	15,754,810	436,146,109
Net balance sheet position (restated*)	885,618	396,270,791	(250,325)	23,386,217	420,292,301

In the course of the restatement disclosed in Note 38.6, comparative information has been updated for consistency.

38 Financial Risk Management (continued)

38.3 Currency risk (continued)

38.3.2 Sensitivity analysis

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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2023 (restated*)	31 December 2022 (restated*)
US Dollar strengthening by 15% (2022: strengthening by 15%)	9,597,392	59,440,619
US Dollar weakening by 15% (2022: weakening by 15%)	(9,597,392)	(59,440,619)
Euro strengthening by 15% (2022: strengthening by 15%)	13,486	(37,549)
Euro weakening by 15% (2022: weakening by 15%)	(13,486)	37,549
Other strengthening by 15% (2022: strengthening by 15%)	3,522,057	3,507,933
Other weakening by 15% (2022: weakening by 15%)	(3,522,057)	(3,507,933)

*Please refer to Note 38.6 for Summary of quantitative impacts of restatements. In the course of the restatement disclosed in Note 38.6, comparative information has been updated for consistency.

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 used to estimate the degree of interest rate risk include gap analysis (mismatch management), duration analysis (analysis of weighted average maturities), and interest income simulation. Additionally, the bank manages and minimizes risk through interest gap management, interest risk hedging and compliance with established limits. The process of interest rate limits includes (i) limit on maximum loss, (ii) limits on interest rate gap and (iii) minimum interest rate on allocation of resources.

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

At 31 December 2023, if interest rates at that date had been 10% higher/(lower) (2022: 10% higher/lower) with all other variables held constant, profit or loss and equity for the year would have been MNT 46,381,108 thousands (2022: MNT 42,029,230 thousands) higher/(lower), mainly as a result of high net interest sensitivity gap and changes interest rates during 2023.

The Bank's exposure to interest rate risk at the end of the reporting period is not representative of the typical exposure during the year. For the average exposure during 2023, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 44,205,169 thousands higher/(lower) (2022: MNT 15,003,219 thousands higher/(lower)). The table below summarises the Bank's exposure to interest rate risks.

38 Financial Risk Management (continued)

38.4 Interest rate risk (continued)

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:

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

38.4.1 Interest rates at the respective reporting rates

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:

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

38 Financial Risk Management (continued)

38.4 Interest rate risk (continued)

Other price risk. The Bank has limited exposure to equity price risk. Transactions in equity products are monitored and authorised by the Bank treasury. At 31 December 2023, if equity prices at that date had been 15% (2022: 15%) lower (higher) with all other variables held constant, profit and equity for the year would have been MNT 3,545,117 thousands (2022: MNT 3,315,528 thousands) lower (higher).

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

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

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

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

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 Financial Risk Management (continued)

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:

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

The Bank conducts the liquidity stress test in order to identify the sudden and severe stress events and ensure the adequate liquidity even after the economic shocks. Risk Appetite Statement defines the amount of liquidity buffer to add to absorb liquidity-related shocks and maintain the flow of lending to the real economy. The table below shows the assets and liabilities as at 31 December 2023 and 31 December 2022 by their remaining contractual maturity.

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

Golomt Bank JSC

Notes to the Financial Statements – 31 December 2023

38 Financial Risk Management (continued)

38.5 Liquidity risk, continued

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

<i>In thousands of Mongolian Tugriks</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with the Bank of Mongolia	1,717,584,758	-	-	-	-	1,717,584,758
Mandatory cash balances with the Bank of Mongolia	468,929,955	-	-	-	-	468,929,955
Reverse sale and repurchase agreement	646,835,976	-	-	-	-	646,835,976
Due from other banks	658,048,221	391,330,142	14,801,796	345,577,143	-	1,409,757,302
Investments in debt securities	651,385,000	363,050,731	56,513,798	421,755,038	816,525,253	2,309,229,820
Investments in equity securities	24,082,823	-	-	-	-	24,082,823
Loans and advances to customers	343,322,244	731,184,531	845,069,668	2,831,760,149	1,896,510,622	6,647,847,214
Derivative financial assets	202,709	84,031,984	4,772,182	113,380,045	-	202,386,920
- inflows	202,709	370,874,015	28,239,806	577,685,345	-	977,001,874
- outflows	-	(286,842,031)	(23,467,624)	(464,305,299)	-	(774,614,954)
Other financial assets	51,677,977	212,790	949,572	2,862,828	60,974	55,764,141
Total Financial Assets	4,562,069,663	1,569,810,178	922,107,016	3,715,335,203	2,713,096,849	13,482,418,909
Liabilities						
Due to other banks	131,113,624	-	-	-	-	131,113,624
Customer accounts						
- Current/settlement accounts (restated*)	4,062,711,279	-	-	-	-	4,062,711,279
- Demand deposits (restated*)	516,937,911	-	-	-	-	516,937,911
- Term deposits	519,179,537	1,877,114,400	1,071,897,580	109,501,940	7,821,031	3,585,514,488
Other borrowed funds	295,054	412,963,195	121,045,686	930,428,197	35,164,709	1,499,896,841
REPO arrangements	503,300,337	26,905,191	179,262,751	20,401,926	-	729,870,205
Derivative financial liabilities	127,797	2,685,645	77,496	-	-	2,890,938
- inflows	-	(51,926,634)	(11,793,209)	-	-	(63,719,843)
- outflows	127,797	54,612,279	11,870,705	-	-	66,610,781
Other financial liabilities	182,888,614	351,037	93,782	93,566	-	183,426,999
Total Financial Liabilities (restated*)	5,916,554,153	2,320,019,468	1,372,377,295	1,060,425,629	42,985,740	10,712,362,285
Credit related commitments (restated*)	1,346,547,369	-	-	-	-	1,346,547,369
Guarantee and LC (restated*)	776,594,051	-	-	-	-	776,594,051
Credit Line undrawn (restated*)	569,953,318	-	-	-	-	569,953,318
Net Gap (restated*)	(2,701,031,859)	(750,209,290)	(450,270,279)	2,654,909,574	2,670,111,109	1,423,509,255
Accumulated Net Gap (restated*)	(2,701,031,859)	(3,451,241,149)	(3,901,511,428)	(1,246,601,854)	1,423,509,255	

*Please refer to Note 38.6 for Summary of quantitative impacts of restatements.

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Notes to the Financial Statements – 31 December 2023

38 Financial Risk Management (continued)

38.5 Liquidity risk, continued

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

<i>In thousands of Mongolian Tugriks</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and balances with the Bank of Mongolia	1,142,404,090	-	-	-	-	1,142,404,090
Mandatory cash balances with the Bank of Mongolia	357,581,959	-	-	-	-	357,581,959
Due from other banks	496,301,297	17,666,653	367,619,425	705,577,121	-	1,587,164,496
Investments in debt securities	649,928,095	69,197,301	51,345,446	290,582,375	561,187,488	1,622,240,705
Investments in equity securities	22,513,491	-	-	-	-	22,513,491
Loans and advances to customers	262,512,704	474,848,723	855,769,304	1,942,840,163	1,523,701,208	5,059,672,102
Derivative financial instruments-asset	8,374,137	111,840	124,460,563	303,199,569	-	436,146,109
- inflows	37,432,781	21,706,244	235,225,696	382,752,526	-	677,117,247
- outflows	(29,058,644)	(21,594,404)	(110,765,133)	(79,552,957)	-	(240,971,138)
Other financial assets	26,033,455	160,839	1,553,352	29,419	-	27,777,065
Total Financial Assets	2,965,649,228	561,985,356	1,400,748,090	3,242,228,647	2,084,888,696	10,255,500,017
Liabilities						
Due to other banks	52,394,763	-	-	-	-	52,394,763
Customer accounts						
- Current accounts	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	1,308,603,844	44,317,685	2,056,026,775
REPO arrangements	-	97,661,680	101,772,659	20,331,109	-	219,765,448
Other financial liabilities	111,977,417	1,490,165	1,576,278	68,430	-	115,112,290
Total Financial Liabilities	3,542,443,258	826,505,752	2,306,733,577	1,551,633,298	44,317,685	8,271,633,570
Credit related commitments (restated*)	951,456,051	-	-	-	-	951,456,051
Guarantee and LC (restated*)	666,594,859	-	-	-	-	666,594,859
Credit Line undrawn (restated*)	284,861,192	-	-	-	-	284,861,192
Net Gap (restated*)	(1,528,250,081)	(264,520,396)	(905,985,487)	1,690,595,349	2,040,571,011	1,032,410,396
Accumulated Net Gap (restated*)	(1,528,250,081)	(1,792,770,477)	(2,698,755,964)	(1,008,160,615)	1,032,410,396	

*In the course of the restatement disclosed in Note 38.6, comparative information has been updated for consistency.

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Notes to the Financial Statements – 31 December 2023

38 Financial Risk Management (continued)

38.5 Liquidity risk, continued

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

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

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Notes to the Financial Statements – 31 December 2023

38 Financial Risk Management (continued)

38.5 Liquidity risk, continued

38.5.4 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:

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

38 Financial Risk Management (continued)

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.

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 following tables present the previously reported by the Bank at 31 December 2023. Please refer to Note 38.3.1 and Note 38.3.2 for restated figures. The Bank identified a mathematical error in the treatment of derivatives for the calculation of the net balance position for the exposure to foreign currency exchange and corresponding currency risk sensitivity analysis

Exposure to foreign currency exchange

<i>In thousands of Mongolian Tugriks</i>	31 December 2023				
	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with the Bank of Mongolia	500,249,111	806,611,532	57,344,920	353,379,195	1,717,584,758
Mandatory cash balances with the Bank of Mongolia	157,467,328	311,462,627	-	-	468,929,955
Reverse sale and repurchase agreement	646,835,976	-	-	-	646,835,976
Due from other banks	5,433,480	1,219,150,129	30,164,393	148,906,331	1,403,654,333
Investments in debt securities	1,239,306,602	493,786,018	-	-	1,733,092,620
Loans and advances to customers	4,572,462,547	137,332,853	283,706	2,029,599	4,712,108,705
Other financial assets	55,585,230	(80,367)	63,309	195,969	55,764,141
Total monetary financial assets	7,177,340,274	2,968,262,792	87,856,328	504,511,094	10,737,970,488
Monetary financial liabilities					
Due to other banks	102,818,117	10,457,077	14,505,900	3,210,762	130,991,856
Customer accounts	4,803,421,646	2,692,218,996	71,484,444	469,508,569	8,036,633,655
- Current Accounts	2,206,780,141	1,615,014,786	37,247,727	203,668,625	4,062,711,279
- Demand Savings	331,568,185	161,752,602	13,243,341	10,373,783	516,937,911
- Term deposits	2,265,073,320	915,451,608	20,993,376	255,466,161	3,456,984,465
Other borrowed funds	349,787,396	1,058,377,457	461,538	2,302,331	1,410,928,722
REPO arrangements	547,659,994	164,014,169	-	-	711,674,163
Other financial liabilities	156,297,005	19,909,083	1,261,976	5,958,935	183,426,999
Total monetary financial liabilities	5,959,984,158	3,944,976,782	87,713,858	480,980,597	10,473,655,395
Less: Derivatives	(841,097,939)	1,040,696,600	(52,565)	(50,114)	199,495,982
Net balance sheet position (previously reported*)	2,058,454,055	(2,017,410,590)	195,035	23,580,611	64,819,111

Sensitivity analysis

<i>In thousands of Mongolian Tugriks</i>	31 December 2023 (previously reported*)
US Dollar strengthening by 15%	(302,611,588)
US Dollar weakening by 15%	302,611,588
Euro strengthening by 15%	29,255
Euro weakening by 15%	(29,255)
Other strengthening by 15%	3,537,092
Other weakening by 15%	(3,537,092)

38 Financial Risk Management (continued)

38.6 Restatement of previously issued financial statements (continued)

*The following tables present the previously reported by the Bank at 31 December 2022. Please refer to Note 38.3.1 and Note 38.3.2 for restated figures. The Bank identified a mathematical error in the treatment of derivatives for the calculation of the net balance position for the exposure to foreign currency exchange and corresponding currency risk sensitivity analysis.

Exposure to foreign currency exchange

<i>In thousands of Mongolian Tugriks</i>	31 December 2022				
	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with the Bank of Mongolia	798,739,886	143,544,872	63,356,714	136,762,618	1,142,404,090
Mandatory cash balances with the Bank of Mongolia	110,266,797	247,315,162	-	-	357,581,959
Due from other banks	1,954,810	1,475,505,273	9,542,401	79,960,896	1,566,963,380
Investments in debt securities	917,160,109	313,090,900	-	-	1,230,251,009
Loans and advances to customers	3,451,538,853	227,028,816	18,562,835	502,841	3,697,633,345
Other financial assets	26,367,271	1,197,605	91,116	121,073	27,777,065
Total monetary financial assets	5,306,027,726	2,407,682,628	91,553,066	217,347,428	8,022,610,848
Monetary financial liabilities					
Due to other banks	40,411,791	9,693,059	1,444,341	845,572	52,394,763
Customer accounts	3,422,863,051	2,038,233,479	79,220,034	202,981,303	5,743,297,867
- Current Accounts	1,578,690,458	985,660,916	47,332,381	146,381,199	2,758,064,954
- Demand Savings	210,674,967	173,810,898	13,338,848	28,011,258	425,835,971
- Term deposits	1,633,497,626	878,761,665	18,548,804	28,588,847	2,559,396,942
Other borrowed funds	480,966,640	1,419,768,033	12,034,996	3,542,423	1,916,312,092
REPO arrangements	169,906,728	41,440,916	-	-	211,347,644
Other financial liabilities	92,502,570	19,654,679	608,318	2,346,723	115,112,290
Total monetary financial liabilities	4,206,650,780	3,528,790,166	93,307,689	209,716,021	8,038,464,656
Less: Derivatives (previously reported*)	1,850,331,536	(1,396,926,319)	(1,504,298)	(15,754,810)	436,146,109
Net balance sheet position (previously reported*)	(750,954,590)	275,818,781	(250,325)	23,386,217	(451,999,917)

Sensitivity analysis

<i>In thousands of Mongolian Tugriks</i>	31 December 2022 (previously reported*)
US Dollar strengthening by 15%	41,372,817
US Dollar weakening by 15%	(41,372,817)
Euro strengthening by 15%	(37,549)
Euro weakening by 15%	37,549
Other strengthening by 15%	3,507,933
Other weakening by 15%	(3,507,933)

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38 Financial Risk Management (continued)

38.6 Restatement of previously issued financial statements, continued

*The following table present the previously reported by the Bank as at 31 December 2023. Please refer to Note 38.5.1 for restated figures. The Bank identified an error in allocation of current accounts, settlement accounts, demand deposits and credit related commitments to respective time buckets in the maturity analysis of financial instruments based on undiscounted contractual obligations.

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

38 Financial Risk Management (continued)

38.6 Restatement of previously issued financial statements, continued

*The following table present the previously reported by the Bank as at 31 December 2022. Please refer to Note 38.5.2 for restated figures. The Bank identified an error in allocation of current accounts, settlement accounts, demand deposits and credit related commitments to respective time buckets in the maturity analysis of financial instruments based on undiscounted contractual obligations.

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

39 Contingencies and Commitments

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

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

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

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

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

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

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

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

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

39 Contingencies and Commitments (continued)

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

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

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

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

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

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

39 Contingencies and Commitments (continued)

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

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

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

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

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

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

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

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

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

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

39 Contingencies and Commitments (continued)

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

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

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

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

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

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

40 Derivative Financial Instruments

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

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

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

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

40 Derivative Financial Instruments (continued)

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

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

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

41 Fair Value Disclosures

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

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

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41 Fair Value Disclosures (continued)

(a) Recurring fair value measurements

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

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

41 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

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

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

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

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

Financial assets

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

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

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

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

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

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

41 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

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

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

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

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

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

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

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

Non-financial assets at 31 December 2023:

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

41 Fair Value Disclosures (continued)

(a) Recurring fair value measurements (continued)

Non-financial assets at 31 December 2022:

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

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

(b) Non-recurring fair value measurements

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

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

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

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

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

41 Fair Value Disclosures (continued)

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

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

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

41 Fair Value Disclosures (continued)

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

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

41 Fair Value Disclosures (continued)

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

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

41 Fair Value Disclosures (continued)

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

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

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42 Presentation of Financial Instruments by Measurement Category

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

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

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Notes to the Financial Statements – 31 December 2023

42 Presentation of Financial Instruments by Measurement Category (continued)

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

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

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

43 Related Party Transactions

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

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

Related party categories are as follows:

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

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

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43 Related Party Transactions (continued)

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

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

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

<i>In thousands of Mongolian Tugriks</i>	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

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Notes to the Financial Statements – 31 December 2023

43 Related Party Transactions (continued)

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

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

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

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

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

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Notes to the Financial Statements – 31 December 2023

43 Related Party Transactions (continued)

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

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

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

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

43 Related Party Transactions (continued)

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

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

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

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

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

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

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

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

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

44 Share-based payments

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

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

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

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

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

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

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

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

45 Event after the End of the Reporting period

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

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

46 Mongolian translation

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

47 Abbreviations

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

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

GOLOMT BANK

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

31 December 2022

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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	<i>Chairwoman</i>
Urs E. Schwarzenbach	<i>Member</i>
D. Munkhtur	<i>Member</i>
L. Bolormaa	<i>Member</i>
O.Ganjoloo	<i>Member</i>
J. Unenbat	<i>Member</i>
López Abelló	<i>Independent Member</i>
James B. Dwyer	<i>Independent Member</i>
Alexander Picker	<i>Independent Member</i>

Executive Officers

K. Norihiko	<i>Chief Executive Officer</i>
G. Ganbold	<i>President</i>
T. Nyamsuren	<i>Deputy CEO and CRO</i>
D. Badral	<i>Deputy CEO and CBO</i>
M. Sainbileg	<i>Chief Information Officer</i>
S. Munkhtuya	<i>Director of Financial Management Division</i>
Z. Myagmardorj	<i>Director of Corporate Banking Division</i>
Ts. Baigalmaa	<i>Director of Retail Business Division</i>
M. Narankhuu	<i>Director of Credit Division</i>
T. Otgon	<i>Director of Risk Management Division</i>
G. Uyanga	<i>Director of Human Resource Management Division</i>
B. Sodbolor	<i>Director of Treasury Division</i>
N. Ochirkhuyag	<i>Director of Marketing and PR Division</i>
A. Nyamsuren	<i>Director of Business Process Management Division</i>
O. Battsengel	<i>Director of Information Technology Division</i>
Yo. Purevbat	<i>Director of Operation Division</i>
Kh. Purevdorj	<i>Director of Administration Division</i>

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.

PricewaterhouseCoopers Audit LLC, Central Tower Office Building, Suite 601, Floor 6, Sukhbaatar's Square, SBD-8, Ulaanbaatar 14200, Mongolia
T: +976 70009089

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:



ATA4502 К 5357128
Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:



Aigul Akhmetova
Partner
PricewaterhouseCoopers Audit LLC

Golomt Bank JSC
Statement of Financial Position

<i>In thousands of Mongolian Tugriks</i>	<i>Note</i>	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.


CH. MUNKHTSETSEG
 Chairwoman, Board of Governors



K. NORIHIKO
 Chief Executive Officer


S. MUNKHTUYA
 Head of Financial Management Division

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

Golomt Bank JSC
Statement of Profit or Loss and Other Comprehensive Income

<i>In thousands of Mongolian Tugriks</i>	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

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

2

Golomt Bank JSC
Statement of Changes in Equity
31 December 2022

<i>In thousands of Mongolian Tugriks</i>	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.

Golomt Bank JSC
Statement of Cash Flow

<i>In thousands of Mongolian Tugriks</i>	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

Golomt Bank JSC
Statement of Cash Flow

<i>In thousands of Mongolian Tugriks</i>	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.

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 price 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:

Variable	Scenario	Assigned weight	Assumption for:		
			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:

Variable	Scenario	Assigned weight	Assumption for:		
			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
<i>Mongolian national Tugriks/US Dollar</i>	3,444.60	2,848.80
<i>Mongolian national Tugriks/EURO</i>	3,669.02	3,222.99
<i>Mongolian national Tugriks/British Pound Sterling</i>	4,156.60	3,836.19
<i>Mongolian national Tugriks/Chinese Yuan</i>	495.40	447.15
<i>Mongolian national Tugriks/Russian Rubble</i>	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

Reposessed 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 'Reposessed 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 reposessed 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 reposessed 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 reposessed collateral, the Bank applies the accounting policy for inventories and keep them in line 'Reposessed 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 reposessed assets, which are planned to be sold, refer to Note 18.

In case of reposessed 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 reposessed 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 reposessed 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)

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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.

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2022 Stage 1 (12-months ECL)	31 December 2021 Stage 1 (12-months ECL)
<i>Treasury bills of the Bank of Mongolia</i>		
- 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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2022 Stage 1 (12-months ECL)	31 December 2021 Stage 1 (12-months ECL)
<i>Government bonds</i>		
- 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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2022 Stage 1 (12-months ECL)	31 December 2021 Stage 1 (12-months ECL)
<i>Corporate bonds</i>		
- 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:

<i>In thousands of Mongolian Tugriks</i>	Credit loss allowance Stage 1 (12-months ECL)	Carrying value Stage 1 (12-months ECL)
<i>Treasury bills of the Bank of Mongolia at FVTOCI</i>		
At 1 January 2022	951,283	1,563,953,019
<i>Movements with impact on credit loss allowance charge for the period:</i>		
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
<i>Government bonds at FVTOCI</i>		
At 1 January 2022	2,675,792	188,825,517
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	532,471	12,699,418
Total gross carrying value	3,208,263	201,524,935
<i>Movements without impact on credit loss allowance charge for the period:</i>		
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
<i>Corporate bonds at FVTOCI</i>		
At 1 January 2022	861,273	60,510,603
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	172,000	3,676,959
Total gross carrying value	1,033,273	64,187,562
<i>Movements without impact on credit loss allowance charge for the period:</i>		
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:

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

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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
<i>Movements with impact on credit loss allowance charge for the period:</i>		
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:

<i>In thousands of Mongolian Tugriks</i>	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
<i>Movements with impact on credit loss allowance charge for the period:</i>		
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

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2022			31 December 2021		
	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.

Golomt Bank JSC

Notes to the Financial Statements – 31 December 2022

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		
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)
<i>In thousands of Mongolian Tugriks</i>						
Corporate						
At 1 January 2022	4,952,809	910,058	20,817,997	26,680,865	887,463,025	138,392,414
<i>Movements with impact on credit loss allowance charge for the period:</i>						
Transfers:						
- to lifetime (from Stage 1 to Stage 2)	(9,723,568)	9,647,699	-	(75,869)	(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
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	41,800	-	-	41,800	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	-
Derecognised during the period	(3,350,487)	-	(3,591,034)	(6,941,521)	(480,596,160)	(80,206,493)
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)	4,527,675
Other movements	83,563	99,459	2,696,872	2,879,894	2,735,740	751,198
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)	25,379,716
<i>Movements without impact on credit loss allowance charge for the period:</i>						
Write-offs	-	-	(5,117,648)	(5,117,648)	-	(5,117,648)
FX and other movements	(27,542)	(99,459)	(301,296)	(428,296)	(2,735,740)	(61,070)
At 31 December 2022	2,769,000	5,943,213	95,194,025	103,906,237	875,097,660	158,593,412
						1,163,669,938

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Notes to the Financial Statements – 31 December 2022

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		
	Stage 1 (12-months ECL)	Stage 2 (life-time ECL for SICR)	Stage 3 (life-time ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (life-time ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)
<i>In thousands of Mongolian Tugriks</i>							
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
<i>Movements with impact on credit loss allowance charge for the period:</i>							
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	-	-
Derecognised during the period	(4,218,461)	(810,028)	(795,595)	(5,824,084)	(434,809,749)	(80,441,719)	(255,613,518)
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)
Other movements	(68,245)	(95,301)	(1,049,639)	(1,213,185)	(11,038,897)	(124,198)	21,964
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)
<i>Movements without impact on credit loss allowance charge for the period:</i>							
Write-offs	-	-	(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
At 31 December 2021	4,952,809	910,058	20,817,998	26,680,865	887,463,025	194,269,029	1,220,124,468

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12 Loans and Advances to Customers (continued)

	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
<i>In thousands of Mongolian Tugriks</i>								
SME	3,190,681	47,759	36,635,340	39,873,780	661,604,004	13,238,715	150,823,097	825,665,816
At 1 January 2022								
<i>Movements with impact on credit loss allowance charge for the period:</i>								
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 impact 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
<i>Movements without impact on credit loss allowance charge for the period:</i>								
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

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Notes to the Financial Statements – 31 December 2022

12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Credit loss allowances			Gross carrying amount				
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	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	(654,487)	(21,279)	2,261,059	1,585,293
Changes in accrued interest	(10,434)	(111)	2,247,273	2,236,728	5,129,919	(875,798)	(9,044,669)	(4,790,548)
Other movements	(269,428)	838,278	300,080	868,930				
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

Notes to the Financial Statements – 31 December 2022

12 Loans and Advances to Customers (continued)

	Credit loss allowances			Gross carrying amount				
	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
<i>In thousands of Mongolian Tugriks</i>								
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
<i>Movements without impact on credit loss allowance charge for the period:</i>								
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

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112 Loans and Advances to Customers (continued)

	Credit loss allowances			Gross carrying amount				
	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
<i>In thousands of Mongolian Tugriks</i>								
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		-
New originated or purchased	3,744,680	-		3,744,680	331,479,146	-	(4,748,440)	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	-	-	-	4,621,000
Changes in accrued interest	(71,680)	(2,714)	3,530,922	3,456,528	1,715,086	(12,202)	2,918,116	(4,829,810)
Other movements	17,039	2,368,907	(3,617,881)	(1,231,935)	1,077,602	12,107	(5,919,519)	
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)
<i>Movements without impact on credit loss allowance charge for the period:</i>								
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

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12 Loans and Advances to Customers (continued)

	Credit loss allowances			Gross carrying amount				
	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
<i>In thousands of Mongolian Tugriks</i>								
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
<i>Movements without impact on credit loss allowance charge for the period:</i>								
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

Notes to the Financial Statements – 31 December 2022

12 Loans and Advances to Customers (continued)

	Credit loss allowances			Gross carrying amount				
	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
<i>In thousands of Mongolian Tugriks</i>								
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
<i>Movements without impact on credit loss allowance charge for the period:</i>								
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 are as follows:

<i>In thousands of Mongolian Tugriks</i>	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 are as follows:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
<i>Loans to Corporate</i>				
- 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
<i>Loans to SME</i>				
- 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
<i>Consumer loans</i>				
- 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)

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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)

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
<i>Consumer loans</i>				
- 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
<i>Mortgage loans</i>				
- 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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2022		31 December 2021	
	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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.

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	Over-collateralized assets		Under-collateralized assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Credit impaired assets:				
<i>Loans carried at AC:</i>				
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:

<i>In thousands of Mongolian Tugriks</i>	Over-collateralized assets		Under-collateralized assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Credit impaired assets:				
<i>Loans carried at AC:</i>				
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:

<i>In thousands of Mongolian Tugriks</i>	Mortgage		SME		Corporate	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	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	
<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	31 December 2022	31 December 2021
<i>Other financial assets at FV:</i>		
Precious metals	160,633	6,400,182
Total other financial assets at FV	160,633	6,400,182
<i>Other financial assets at AC:</i>		
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
<i>Other non-financial assets</i>		
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.

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 2 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
<i>Receivables from companies</i>				
- 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
<i>Receivables from individuals</i>				
- 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
<i>Receivables on cash and settlements services</i>				
- 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
<i>Other financial asset</i>				
- 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.

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
<i>Receivables from companies</i>			
- 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
<i>Receivables from individuals</i>			
- 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
<i>Receivables on cash and settlements services</i>			
- 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
<i>Other financial asset</i>			
- 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:

<i>In thousands of Mongolian Tugriks</i>	Receivable from com- panies	Receivable from indi- viduals	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/(recov- ery) 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:

<i>In thousands of Mongolian Tugriks</i>	Receivable from com- panies	Receivable from indi- viduals	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

<i>In thousands of Mongolian Tugriks</i>	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

Golomt Bank JSC

Notes to the Financial Statements – 31 December 2022

16 Premises and Equipment

In thousands of Mongolian Tugriks

	Premises	Motor vehicles	Office equipment and computers	Furniture	Leasehold improvement	Construction in progress	Total premises and equipment
Cost/valuation at 1 January 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	-	-	135,139	33,872	-	-	33,872
Disposals of accumulated depreciation	-	329,980	51,322	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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)

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks except for number of shares</i>	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

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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.

<i>In thousands of Mongolian Tugriks</i>	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%:

<i>In thousands of Mongolian Tugriks</i>	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%:

<i>In thousands of Mongolian Tugriks</i>	1 January 2021	Credited/ (charged) to profit or loss	Charged di- rectly to OCI	31 Decem- ber 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:

<i>In thousands of Mongolian Tugriks</i>	2022	2021
Change in value of:		
<i>Items that will be reclassified to profit or loss:</i>		
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)
<i>Items that will not be reclassified to profit or loss:</i>		
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

<i>In thousands of Mongolian Tugriks</i>	2022		2021	
	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 re-sulted from share options for current employees. Basic and diluted earnings per share are calculated as follows:

<i>In thousands of Mongolian Tugriks /except for earning per share/</i>	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 share-holders 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:

<i>In thousands of Mongolian Tugriks</i>	Liabilities from financing activities			Total
	Borrowed funds	Repo agreement	Lease liabilities	
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

<i>In thousands of Mongolian Tugriks</i>	Liabilities from financing activities			Total
	Borrowed funds	Repo agreement	Lease liabilities	
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					
<i>In thousands of Mongolian Tugriks</i>	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
<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021				
	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
<i>In thousands of Mongolian Tugriks</i>	31 December 2021				
	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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 draw-downs on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the commitment amounts to an on-balance sheet exposure. The Bank's management estimates that 12-month and 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 unlikelyness 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 $(1 - \text{Recovery Rate})$.

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 by Alphanumeric Rating, 1983-2021¹

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 report² 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, 1983-2021²

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 judgment 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.

<i>In thousands of Mongolian Tugriks</i>	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.

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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 as- sets	2,919,044,942	387,143,467	1,233,198,802	2,736,831,511	1,205,051,725	8,481,270,447
Financial liabil- ities	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 De- cember 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 as- sets	3,048,499,566	327,436,262	278,677,822	3,034,273,141	882,176,478	7,571,063,269
Financial liabil- ities	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 De- cember 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:

<i>In % p.a.</i>	31 December 2022				31 December 2021			
	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.

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Notes to the Financial Statements – 31 December 2022

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:

<i>In thousands of Mongolian Tugriks</i>	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.

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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:

<i>In thousands of Mongolian Tugriks</i>	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*						
Guarantee and LC*	828,260,373	-	-	-	-	828,260,373
Credit Line undrawn*	606,684,335	-	-	-	-	606,684,335
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.

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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:

<i>In thousands of Mongolian Tugriks</i>	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	

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Notes to the Financial Statements – 31 December 2022

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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of MNT</i>	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%
<u>Tier I capital</u>		
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
<u>Tier II capital</u>		
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.

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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.

<i>In thousands of Mongolian Tugriks</i>	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

<i>In thousands of Mongolian Tugriks</i>	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)

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:

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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:

<i>In thousands of Mongolian Tugriks</i>	2022	2021	Valuation technique	Inputs used
	Fair value	Fair value		
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).

Reposessed 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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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.

<i>In thousands of Mongolian Tugriks</i>	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/hairecuts	267.95-4,024.43	668,757

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

<i>In thousands of Mongolian Tugriks</i>	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/hairecuts	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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 commitments	-	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

Golomt Bank JSC

Notes to the Financial Statements – 31 December 2022

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:

<i>In thousands of Mongolian Tugriks</i>	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
Reposessed 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

Golomt Bank JSC

Notes to the Financial Statements – 31 December 2022

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:

<i>In thousands of Mongolian Tugriks</i>	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
Reposessed 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 shareholders, 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.

Golomt Bank JSC
Notes to the Financial Statements – 31 December 2022

44 Related Party Transactions (continued)

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

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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

Golomt Bank JSC
Notes to the Financial Statements – 31 December 2022

44 Related Party Transactions (continued)

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

<i>In thousands of Mongolian Tugriks</i>	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

Golomt Bank JSC

Notes to the Financial Statements – 31 December 2022

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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	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:

<i>In thousands of Mongolian Tugriks</i>	2022	2021
<i>Expense arising from equity-settled</i>		
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

GOLOMT BANK

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

31 December 2021

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GOLOMT BANK LLC

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	<i>Chairwoman</i>
Urs E. Schwarzenbach	<i>Member</i>
D. Munkhtur	<i>Member</i>
L. Bolormaa	<i>Member</i>
J. Unenbat	<i>Member</i>
López Abelló	<i>Independent Member</i>
James B. Dwyer	<i>Independent Member</i>
Alexander Picker	<i>Independent Member</i>

Executive Officers

K. Norihiko	<i>Chief Executive Officer</i>
G. Ganbold	<i>President</i>
T. Nyamsuren	<i>Deputy CEO and CRO</i>
D. Badral	<i>Deputy CEO and CBO</i>
M. Sainbileg	<i>Chief Information Officer</i>
S. Munkhtuya	<i>Director of Financial Management Division</i>
Z. Myagmardorj	<i>Director of Corporate Banking Division</i>
Ts. Baigalmaa	<i>Director of Retail Business Division</i>
M. Narankhuu	<i>Director of Credit Division</i>
T. Otgon	<i>Director of Risk Management Division</i>
E. Turbold	<i>Director of Treasury Division</i>
G. Uyanga	<i>Director of Human Resource Management Division</i>
N. Ochirkhuyag	<i>Director of Marketing and PR Division</i>
A. Nyamsuren	<i>Director of Business Process Management Division</i>
O. Battsengel	<i>Director of Information Technology Division</i>
Yo. Purevbat	<i>Director of Operation Division</i>
Kh. Purevdorj	<i>Director of Administration Division</i>

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 LLC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Golomt Bank LLC (the "Bank") as at 31 December 2021, 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 2021;
- 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.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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Responsibilities of management and those charged with governance for the financial statements (continued)

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank 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.



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

- 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.

Signed by:

Gaikhuu Davaasambuu
Markets leader



Shaukat Tapia
Partner
PricewaterhouseCoopers Audit LLC

25 March 2022
Ulaanbaatar, Mongolia

Golomt Bank LLC
Statement of Financial Position

<i>In thousands of Mongolian Tugriks</i>	Note	31 December 2021	31 December 2020
Assets			
Cash and balances with central bank (other than mandatory reserve)	7	694,954,420	561,259,957
Mandatory cash balances with the Bank of Mongolia	8	277,343,522	243,458,197
Due from other banks	9	1,056,447,510	1,273,144,461
Investments in debt securities	10	1,979,439,874	1,364,400,620
Investments in equity securities	11	18,472,715	29,495,322
Loans and advances to customers	12	3,339,174,837	3,031,345,915
Investment properties	13	17,427,586	39,671,913
Other assets	14	39,972,362	121,266,425
Derivative financial instruments	41	208,917,059	205,614,803
Intangible assets	15	17,848,672	16,754,344
Premises and equipment	16	150,019,342	144,135,456
Right of use assets	17	13,001,148	9,882,736
Repossession collateral	18	106,953,168	210,576,325
Non-current assets classified as held for sale	19	74,084,536	26,983,976
Total assets		7,994,056,751	7,277,990,450
Liabilities			
Due to other banks	20	16,782,536	14,638,962
Customer accounts	21	5,463,543,390	5,285,675,177
Other borrowed funds	22	1,509,446,027	1,202,264,649
REPO arrangements	23	221,912,121	20,088,596
Current income tax liability	31	29,389,944	-
Deferred income tax liability	31	9,484,597	12,356,607
Lease liabilities	17	14,001,667	10,611,448
Other liabilities	24	70,834,446	100,796,545
Total liabilities		7,335,394,728	6,646,431,984
Equity			
Preferred shares	25	16,388,100	16,388,100
Share capital	25	168,638,148	42,159,537
Share premium	25	169,486,044	291,843,805
Retained earnings		242,436,053	210,853,485
Other reserves		61,713,678	70,313,539
Total equity		658,662,023	631,558,466
Total liabilities and equity		7,994,056,751	7,277,990,450

Approved for issue and signed on behalf of the Bank's management on 25th March 2022.

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

The notes set out on pages 6 to 135 form an integral part of these financial statements.

Golomt Bank LLC
Statement of Profit or Loss and Other Comprehensive Income

<i>In thousands of Mongolian Tugriks</i>	Note	2021	2020
Interest income calculated using the effective interest method	26	526,486,180	551,881,787
Other similar income	26	28,291,422	18,250,599
Interest expense	26	(271,257,957)	(364,394,243)
Other similar expense	26	(1,560,592)	(1,385,422)
Net interest income		281,959,053	204,352,721
Credit loss allowance	12	(35,770,454)	(93,836,353)
Net interest income after credit loss allowance		246,188,599	110,516,368
Fee and commission income	27	62,493,142	49,077,568
Fee and commission expense	27	(21,714,228)	(15,595,724)
Gains less losses from financial assets at fair value through profit or loss		1,695,813	(1,023,322)
Gains less losses from modification of borrowed fund at amortised cost		3,638,530	1,847,344
Losses less gains from disposal of financial assets at fair value through other comprehensive income		(626)	2,217,585
Losses less gains from financial derivatives		(21,818,582)	14,504,028
Gains less losses from trading in precious metals		4,785,518	10,454,295
Foreign exchange translation gains less losses		153,074	4,182,339
Gains less losses from trading in foreign currencies		20,398,503	15,575,013
Losses less gains from loans at fair value through profit or loss		(14,571,327)	(5,970,851)
Losses less gains from modification of financial assets measured at amortised cost, that did not lead to derecognition		(848,111)	(549,771)
Credit loss allowance of debt securities at amortised cost	12	(2,676)	47,359
Impairment of debt securities at fair value through other comprehensive income		(1,782,503)	(2,581,031)
Reversal of credit loss allowance of due from banks		13,591	594,619
Losses on initial recognition of assets at rates below market		(2,636,090)	(922,974)
Credit loss allowance for other assets	14	(539,852)	(761,576)
Losses less gains from non-current asset held for sale		(3,973,106)	(344,059)
Impairment provision charge for and loss from decrease in fair value of repossessed collateral	18	(78,887,826)	(38,176,652)
Reversal of provision charge for guarantee and letter of credit		1,958,933	(959,246)
Losses less gains on revaluation of investment properties		(7,426,258)	(1,778,646)
Dividend received		204,394	232,901
Other operating income	28	3,835,000	3,208,137
Administrative and other operating expenses	29	(137,139,597)	(121,014,584)
Other gains/(losses), net	30	(1,453,421)	(290,100)
Profit before tax		52,570,894	22,489,020
Income tax expense	31	(26,634,228)	(12,095,260)
Profit for the year		25,936,666	10,393,760
Other comprehensive income/(loss):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Debt securities at fair value through other comprehensive income:			
- Gains less losses arising during the year		2,680,637	2,217,585
- Gains less losses reclassified to profit or loss upon disposal		626	(2,217,585)
Income tax recorded directly in other comprehensive income		(670,316)	-
<i>Items that will not be reclassified to profit or loss:</i>			
Gains less losses on investments in equity securities at fair value through other comprehensive income	32	1,153,870	3,905,911
Income tax recorded directly in other comprehensive income	32	(288,468)	(976,478)
Other comprehensive income		2,876,349	2,929,433
Total comprehensive income for the year		28,813,015	13,323,193
Earnings per share for profit attributable to the owners of the Bank, basic and diluted	34	35.92	16.96

Refer to note 25 and 34 for details of Earnings per share for profit attributable to the owners of the Bank.

The notes set out on pages 6 to 135 form an integral part of these financial statements.

2

Golomt Bank LLC
Statement of Changes in Equity
31 December 2021

<i>In thousands of Mongolian Tugriks</i>	Note	Preferred share capital	Treasury preferred shares	Ordinary share capital	Treasury shares	Share premium	Revaluation reserve for securities at FVTOCI	Revaluation reserve for premises	Other reserves	Retained earnings	Total equity
Balance at 1 January 2020		25,778,900	-	32,014,498	-	135,171,702	(15,791,456)	7,746,670	80,188,259	197,396,268	462,504,841
Profit for the year		-	-	-	-	-	-	-	-	10,393,760	10,393,760
Other comprehensive income		-	-	-	-	-	2,929,433	-	-	-	2,929,433
Total comprehensive income for 2020		-	-	-	-	-	2,929,433	-	-	10,393,760	13,323,193
Acquisition of treasury shares	25	-	(9,390,800)	-	(80,500)	(5,102,358)	-	-	-	-	(14,573,658)
Conversion of the subordinated loans	25	-	-	10,225,539	-	161,774,461	-	-	-	-	172,000,000
Dividends declared and paid	33	-	-	-	-	-	-	-	-	(1,695,910)	(1,695,910)
Transfer of revaluation surplus on premises		-	-	-	-	-	-	(251,127)	-	251,127	-
Transfer to regulatory reserve		-	-	-	-	-	-	-	(4,508,240)	4,508,240	-
Balance at 31 December 2020		25,778,900	(9,390,800)	42,240,037	(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		25,778,900	(9,390,800)	168,960,148	(322,000)	169,486,044	(636,094)	7,245,102	55,104,670	242,436,053	658,662,023

As of 31 December 2021, other reserves mainly consist of the regulatory reserves required by Bank of Mongolia. 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 135 form an integral part of these financial statements.

Golomt Bank LLC
Statement of Cashflow

<i>In thousands of Mongolian Tugriks</i>	Note	2021	2020
Cash flows from operating activities			
Profit before tax		52,570,894	22,489,020
Adjustments for non-cash income and expenses:			
Credit loss allowance	12	35,770,454	93,836,353
Losses less gains from financial assets at fair value through other comprehensive income		626	(2,217,585)
Gains less losses from financial assets at fair value through profit or loss		(1,695,813)	1,023,322
Gains less losses from modification of borrowed fund at amortised cost		(3,638,530)	(1,847,344)
Losses less gains from financial derivatives	41	21,818,582	(14,504,028)
Losses less gains from modification of financial assets measured at amortised cost, that did not lead to derecognition		848,111	549,771
Losses less gains of loans at fair value through profit or loss		14,571,327	5,970,851
Reversal of credit loss allowance of due from other banks		(13,591)	(594,619)
Impairment of debt securities at fair value through other comprehensive income		1,782,503	2,581,031
Credit loss allowance of debt securities at amortised cost		2,676	(47,359)
Losses on initial recognition of assets at rates below market		2,636,090	922,974
Losses on disposal of premises and equipment and investment properties		1,453,421	(330,660)
Foreign exchange (gains)/losses		(153,074)	(4,182,339)
Credit loss allowance for other assets	14	539,852	761,576
Reversal of provision for credit related commitment		(1,958,933)	959,246
Losses less gains from revaluation of investment properties	13	7,426,258	1,778,646
Losses less gains from non-current asset held for sale	19	3,973,106	344,059
Depreciation expense	16,17	24,555,445	20,893,854
Amortisation expense	15	3,837,579	3,300,686
Property and equipment written off	16	18,397	199,973
Impairment provision charge for and loss from decrease in fair value of repossessed collateral	18	78,887,826	38,176,652
Interest income	26	(554,777,602)	(570,132,386)
Interest expense	26	272,818,549	365,779,665
Cash flows used in operating activities before changes in operating assets and liabilities		(38,725,847)	(34,288,641)
(Increase) / decrease in mandatory cash balances with the Bank of Mongolia		(33,853,818)	48,453,208
Decrease / (increase) in due from other banks		95,873,906	(263,571,706)
(Increase) / decrease in debt securities at fair value true profit or loss		(2,188,600)	39,713,894
Decrease / (increase) in equity securities at fair value true profit or loss		1,029,277	(515,433)
(Increase) / decrease in loans and advances		(514,728,118)	(19,804,309)
Decrease / (increase) in other assets		80,328,375	2,613,223
(Increase) in repossessed collateral		(44,115,715)	(44,631,606)
Decrease / (increase) in non-current assets classified as held for sale		76,700,121	26,107,289
Increase / (decrease) in due to banks		2,102,465	(38,289,550)
Increase / (decrease) in customer account		256,942,420	389,215,894
(Decrease) / increase in other liabilities		(28,003,168)	(6,318,838)
Net cash from/(used in) operating activities before tax and interest		(148,638,702)	98,683,425
Income tax paid		(1,075,077)	(2,068,516)
Interest income received		557,033,125	507,987,326
Interest income received on investments at fair value through profit or loss		8,317,135	10,458,601
Interest paid		(382,483,341)	(357,859,711)
Net cash from/(used in) operating activities		33,153,141	257,201,125

Golomt Bank LLC
Statement of Cashflow

<i>In thousands of Mongolian Tugriks</i>	Note	2021	2020
Cash flows from investing activities			
Acquisition of debt securities at fair value through other comprehensive income		(93,473,456)	(348,851,637)
Proceeds from disposal of debt securities at fair value through other comprehensive income		-	200,806,180
Proceeds from disposal of equity securities at fair value through other comprehensive income		12,837,742	27,694,023
Proceeds from redemption of debt securities carried at amortised cost		-	6,581,628
Proceeds from disposal of investment property		18,648,928	7,705,891
Acquisition of premises and equipment	16	(25,795,226)	(12,180,906)
Proceeds from disposal of premises and equipment	16	704,525	3,313,026
Acquisition of intangible assets	15	(4,931,907)	(5,685,019)
Net cash used in investing activities		(92,009,394)	(120,616,813)
Cash flows from financing activities			
Acquisition of treasury ordinary shares		-	(1,062,008)
Acquisition of treasury preference shares		-	(13,511,650)
Proceeds from repo arrangements		562,558,030	1,822,632,072
Repayment of repo arrangements		(367,560,485)	(1,829,718,400)
Proceeds from drawdown of other borrowed funds	22	1,205,497,008	357,938,206
Repayment of other borrowed funds	22	(854,325,119)	(23,120,151)
Repayment of principal of lease liabilities		(5,205,254)	(5,818,276)
Repayment of subordinated loans		-	(27,616)
Dividends paid	33	(1,709,458)	(1,695,911)
Net cash from financing activities		539,254,722	305,616,266
Effect of exchange rate changes on cash and cash equivalents		7,540,251	39,206,535
Net increase in cash and cash equivalent		487,938,720	481,407,114
Cash and cash equivalents at the beginning of the period		1,946,787,169	1,465,380,055
Cash and cash equivalents at the end of the period	7	2,434,725,888	1,946,787,169

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

Non cash 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.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for year ended 31 December 2021 for Golomt Bank ("the Bank").

As of 31 December 2021, the Bank's immediate parent company is Golomt Financial Group LLC (31 December 2020: Golomt Financial Group LLC). The Bank was incorporated and is domiciled in Mongolia. The Bank is a limited liability company and was established in accordance with the legislation of Mongolia.

Mr. Bayasgalan D., the owner of Golomt Financial Group as of 31 December 2021, represents the ultimate controlling party of the Bank as of 31 December 2021 and 31 December 2020.

The Bank's shareholders as of 31 December 2021 and 31 December 2020 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 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 2021, the Bank had 76 branches within Mongolia (31 December 2020: 77 branches). Also, as at 31 December 2021 the Bank had 24 sub-branches (31 December 2020: 26 sub-branches).

The number of Bank employees as at 31 December 2021 was 2,226 (31 December 2020: 2,233).

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

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

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

2 Operating Environment of the Bank

2.1 General

Mongolia displays many characteristics of 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 in 2017-2019, the Mongolian economy has contracted amid adverse impact of the COVID-19 pandemic by 5.3% in 2020, due to slow inbound foreign investment into the country and pre-existing macroeconomic vulnerabilities. Driven by favourable terms of trade, increase in commodity price and higher export demand, Mongolia's economy growth was 1.4% in 2021 which expected to recover gradually in 2022 as pandemic risks fade and the global recovery strengthens.

The country's rating stood at B with stable outlook on 3 August 2021 by Standard and Poor's Rating Services. Moody's rating agency announced Mongolia's credit rating was "B3" with stable outlook, changed from negative, on 16 March 2021.

The banking sector of Mongolia has been affected by the pandemic in 2020, although mostly indirectly due to worsened credit quality of customers. However, in 2021, the economy has started recovering from the pandemic and non-performing loan ratio has decreased by 180 bp as of 31 December 2021 comparing to 31 December 2020 according to the consolidated financial report of commercial banks from Bank of Mongolia.

The Government of Mongolia has made several decisions to support the economy during the pandemic including provision of low interest loans to small and medium sized enterprises and announced 6-months payment holidays for consumer and mortgage borrowings between January to June 2021, then extended it until 31 December 2022. The Bank of Mongolia has approved temporary change to policy for Asset classification and provisioning and softened credit quality classification for Consumer and Mortgage loans effective from 31 January 2020 until 31 July 2021. Starting from 1 August 2021 the Bank of Mongolia smoothly hardened the credit quality classification through 5 step approaches and planning to fully shift to the original policy from 1 April 2022.

In the course of the crisis, the Government has commenced a staged process of Banking sector reforms and amended the Banking Law at the parliament meeting on 28 January 2021. Its implementation will result in reducing the bank ownership concentration and ensure balance of ownership-management-control in the banking structure. The top five banks including Golomt bank will each have to transform into a public company through an initial public offering on the stock market before 30 June 2022.

Growth prospects in 2022 will largely depend on the course of the COVID-19 pandemic, the pace of economic recovery in the neighbouring People's Republic of China, the rebounding of commodity exports, the overall investment climate and private sector credit growth. 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 different from those projected. Note 4 and Note 38 provides more information of how the Bank incorporated forward-looking information in the ECL models.

2 Operating Environment of the Bank (continued)

2.2 Currency transactions

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

Date	USD	EUR
31 December 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
31 December 2017	2,427.13	2,897.87

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 2021:

Variable	Scenario	Assigned weight	Assumption for:		
			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%

The assumptions and assigned weights were as follows at 31 December 2020:

Variable	Scenario	Assigned weight	Assumption for:		
			2021	2022	2023
GDP growth	Base	66%	5.4%	5.5%	6.9%
	Upside	23%	10.8%	11.0%	8.1%
	Downside	12%	2.7%	0.5%	5.7%
M2 /YoY growth/	Base	66%	10.0%	15.0%	13.0%
	Upside	23%	18.8%	11.7%	12.7%
	Downside	12%	1.2%	18.6%	13.3%
MNT/USD /YoY growth/	Base	66%	-0.4%	2.4%	5.4%
	Upside	23%	-0.5%	2.6%	5.7%
	Downside	12%	-0.04%	2.3%	5.1%
Loan rate	Base	66%	13.6%	13.1%	14.2%
	Upside	23%	12.2%	11.7%	15.2%
	Downside	12%	15.6%	15.1%	13.8%

The Bank increased the weight for the downside scenario mainly related to financial sector risks due to household wage income, high inflation and increased uncertainty in the global commodity markets, and external buffers comparing to 31 December 2020.

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 Corporate and SME; 45 days past due for Mortgage and Consumer
- Forbearance status;
- Loans classified with “Special mention” based on “Regulation on asset classification, provisioning and its disbursements” by the Bank of Mongolia.
- Default status.

The Management believes that 30 days past due criteria is no longer the right criteria for SICR for Mortgage and Consumer loans due to payment holidays supported by the Government and softened asset classification and provisioning policy from Bank of Mongolia. Due to the change, the individuals who did not formally apply for the holiday but were not paying on time even though they did not have financial difficulties because the future implication of delayed payment has become limited and they have the opportunity to take payment holiday as well. Therefore, the Bank has made a significant judgement and temporarily changed the criteria for SICR to be 45 days past due for Mortgage and Consumer loans for the period between 31 January 2020 to 31 December 2021 which is in line with change in the asset classification and provisioning policy from Bank of Mongolia. Similarly, default criteria was updated to 100 days past due for those two portfolios during the period. 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 12,540,769 thousand as of 31 December 2021 (31 December 2020: higher by MNT 12,323,106 thousand).

3 Basis of Preparation (continued)

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

3.3.4 Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at 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 91% (31 December 2020: 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.

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 10-30 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 1-5 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 395,013,299 thousand as at 31 December 2021 (31 December 2020: MNT 214,326,409 thousand) and are disclosed in Note 22.

3.3.12 Mongolian Mortgage Corporation LLC (MIK) securitisation transaction

During 2021 year, the Bank participated in 4 tranches of MIK securitisation transaction. The Bank sold the 5%,6%,8% mortgage loans to MIK SPC25, MIK SPC26, MIK SPC27, MIK SPC28 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 Investment in Investment Fund

As disclosed in Note 14, the Bank has invested in the first investment fund established in Mongolia in late December 2014. As at 31 December 2020, the Bank owned 4.17% of investment units of the Fund. Management assessed that it did not have control on the operating and financial decisions and activities of the Fund. In making this judgment, management has considered the following:

- the Fund was managed by managing company which was not related to the Bank's owners or management, and the Bank had no right to receive any dividends during the operation of the Fund;
- further, by the contract and the law, management company should be independent and make decisions for the benefit of the fund;
- maximum loss that the Bank could make was to lose its own invested money, but there were no guarantees or obligations to cover losses of other investors. In terms of returns, they were related to the Bank's own purchased investment units i.e. the Bank was not entitled to any rewards related to the investment made by other investors;
- the Bank was not involved in approving investments made by the fund and the managing company of the fund could decide to make investment in other types of assets, and no approval of the Bank was needed for such decision.

The bank exercises significant influence on the investment fund through membership in the Board of Director's meeting. Therefore, the investment is measured by equity method under IAS 28.

During 2021, the Bank withdrew its Investment in investment fund.

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 38,857,755 thousand is recognized as of 31 December 2021 (31 December 2020: MNT 38,933,666 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. As in previous periods, the Bank has determined impairment provision on performing loans as of 31 December 2021, as a part of its assessment of impairment provision in accordance with IFRS requirements and treated related impairment provision charges as non-deductible expenses for the period.

In addition, impairment provision per Bank of Mongolia which is tax deductible expense is higher than IFRS provision as of 31 December 2021 and 31 December 2020.

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 3,691,282 thousands as of 31 December 2021 (31 December 2020: deferred tax asset of MNT 3,724,018 thousands) has been recognized in these financial statements.

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 11,852,602 thousands as of 31 December 2021 (31 December 2020: MNT 11,822,362 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 2021. 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 7 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.

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 repossessed collaterals as at 31 December 2021 represent shares of two companies which were acquired in previous periods by the Bank in settlement of overdue loans. The management of the Bank performs assessment of fair value of these shares at each reporting date. For that the management of the Bank attracts certified valuers and also takes into account external information on markets for such shares.

As at 31 December 2021, the Bank determined the fair value of those shares based on the actual offers from potential buyers in the market, taking into account estimated cost to sale. As a result of an exercise an impairment loss of MNT 61,873,963 thousands tugriks was recognised in profit and loss accounts, as a loss from decrease in fair value of financial repossessed collateral. (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 2021 (Note 31) relates to fair value decrease for financial repossessed collaterals (Note 3.3.18). As of 31 December 2021, the Bank was aware of potential sale transactions of the financial repossessed assets with prices lower than the initial cost and the tax base which is difference between selling price and initial cost, would be negative. Therefore, management believes that the Bank would not be able to utilise the deferred tax asset if booked from fair value loss on the financial repossessed assets, therefore did not recognise the potential deferred tax asset 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 LIBOR, 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 after once the reclassification on financial assets and liabilities as part of transition to IFRS 9 was completed.

(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:

	2021	2020
<i>Mongolian national Tugriks/US Dollar</i>	2,848.80	2,849.51
<i>Mongolian national Tugriks/EURO</i>	3,222.99	3,495.78
<i>Mongolian national Tugriks/British Pound Sterling</i>	3,836.19	3,856.24
<i>Mongolian national Tugriks/Chinese Yuan</i>	447.15	436.13
<i>Mongolian national Tugriks/Russian Rubble</i>	38.34	38.50

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 differ materially from its carrying amount, it may be necessary to revalue the item only three to five years. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

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 20 years;

4.17 Leases

Accounting for leases by the Bank as a lessee. The Bank leases office premises, ATM space, 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 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 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.

4.22 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.

4.23 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.

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

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

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. 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 best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

4.24 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.

4 Significant Accounting Policies (continued)

4.24 Provisions (continued)

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.

4.25 Fiduciary Assets

Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

These fees are recognised over time, on a straight-line basis, when the services are rendered because the customer simultaneously receives and consumes the benefits as the Bank performs. Fees from fiduciary activities are presented within fee and commission income.

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 3.3.14). Foreign currency translation differences arising from all other financial assets and liabilities are recognized within foreign exchange gains less losses and do not give rise to temporary differences.

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

4 Significant Accounting Policies (continued)

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 accruals basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

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

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

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (i.e., the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in P&L due to the asset being in stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

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

4 Significant Accounting Policies (continued)

4.28 Income and expense recognition (continued)

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

Reposessed 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 'Reposessed 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 reposessed 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 reposessed 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 reposessed collateral, the Bank applies the accounting policy for inventories and keep them in line 'Reposessed 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 reposessed assets, which are planned to be sold, refer to Note 18.

In case of reposessed 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 assets characteristics and business model for IFRS measurement purposes and measures them at fair value. Fair value of reposessed 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 assets classification. For details on financial reposessed assets, refer to Note 18.

4.30 Inventories

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

4.31 Precious metals

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

Gains less losses from trading of precious metals are separately presented on the face of the income statement starting from 2021 as it provides more transparency rather than combining with gains less losses from trading of foreign currencies. Comparative amount has been reclassified in line with the change in amount of MNT 10,454,295 thousand in the current period.

5 Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2021:

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. On 31 March 2021, in light of the on-going pandemic, the IASB published additional amendment to extend the date for the concessions from 30 June 2021 to 30 June 2022 (effective for annual periods beginning on or after 1 April 2021).

The Bank negotiated various rent concessions with lessors for leases of properties and concluded that some of these concessions qualified for applying the practical expedient in the IFRS 16 amendment. As a result, the Bank reduced the lease liability as of 31 December 2021 by MNT 159,485 thousand (MNT 80,741 thousand as of 31 December 2020) and recognised the following amounts in the income statement.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- **Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:** For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- **End date for Phase 1 relief for non-contractually specified risk components in hedging relationships:** The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- **Additional temporary exceptions from applying specific hedge accounting requirements:** The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

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 and derivative contracts at 31 December 2021 that would be transitioned to alternative interest rate benchmarks:

5 Adoption of New or Revised Standards and Interpretations (continued)

<i>In thousands of Mongolian tugriks</i>	USD LIBOR	EUR LIBOR	Total
NON-DERIVATIVE FINANCIAL LIABILITIES			
Other borrowed funds	109,972,284	3,946,550	113,918,834
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	109,972,284	3,946,550	113,918,834
DERIVATIVE FINANCIAL INSTRUMENTS			
Interest rate swaps: notional amounts	1,086,589,209	-	1,086,589,209
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	1,086,589,209	-	1,086,589,209

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 Bank is also exposed to a risk of the potential arbitrage differences between IBOR interest rates and the applicable alternative rates.

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 to alternative benchmark interest rates.

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 2022 or later, and which the Bank has not early adopted.

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). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- **Effective date:** The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- **Expected recovery of insurance acquisition cash flows:** An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- **Contractual service margin attributable to investment services:** Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- **Reinsurance contracts held – recovery of losses:** When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply

6 New Accounting Pronouncements (continued)

only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- **Other amendments:** Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments. The Bank is currently assessing the impact of the new standard on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the amendments on its financial statements. The Bank is currently assessing the impact of the new standard on its financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months.

The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Bank is currently assessing the impact of the amendments on its financial statements.

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). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Bank is currently assessing the impact of the amendments on its 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). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16

6 New Accounting Pronouncements (continued)

also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting.

In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities.

The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for de-recognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test. IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent.

The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Bank is currently assessing the impact of the amendments on its financial statements.

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). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Bank is currently assessing the impact of the 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). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax

6 New Accounting Pronouncements (continued)

on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Bank is currently assessing the impact of the amendments on its financial statements.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

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 central bank (other than mandatory reserve)

<i>In thousands of Mongolian Tugriks</i>	30 December 2021	31 December 2020
Cash on hand	115,856,223	126,009,968
Current account with the Bank of Mongolia (other than mandatory reserve)	579,098,197	435,249,989
Cash and cash balances with central bank	694,954,420	561,259,957

Cash and balances with central bank (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 2021 and 31 December 2020. Currency, interest rate and maturity analysis of Cash and balances with central bank (other than mandatory reserve) are disclosed in Note 38.

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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Cash and balances with the central bank (Note 7)	694,954,420	561,259,957
Treasury bills of the Bank of Mongolia with original maturities of less than three months (Note 10)	1,563,001,736	1,096,937,280
Due from banks (Note 9)	176,769,732	288,589,932
Total cash and cash equivalents	2,434,725,888	1,946,787,169

For the purpose of ECL measurement, cash and cash balances with central bank are included in Stage 1 as of 31 December 2021 and 31 December 2020. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents. Please see Note 38 for inputs, assumptions and estimation techniques used for ECL calculation.

8 Mandatory reserves with the Bank of Mongolia

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Mandatory cash balances with the Bank of Mongolia	277,343,522	243,458,197
Mandatory cash balances with the Bank of Mongolia	277,343,522	243,458,197

8 Mandatory reserves with the Bank of Mongolia (continued)

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 6% in MNT and 18% in foreign currency (2020: 8.5% in MNT and 15% 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 2021 and 31 December 2020. For the purpose of ECL measurement, mandatory cash balances are included in Stage 1 as of 31 December 2021 and 31 December 2020.

9 Due from Other Banks

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Correspondent accounts with other banks		
Foreign	122,837,341	272,238,403
Domestic	25,735,787	2,686,086
Short-term placements with other banks		
Foreign	18,208,629	3,653,594
Domestic	9,987,975	10,011,849
Placements with other banks with original maturities of more than three months	879,677,778	984,554,529
Total due from other banks	1,056,447,510	1,273,144,461

Placements with other banks with original maturities of more than three months as at 31 December 2021 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 2021 and 31 December 2020 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.

<i>In thousands of Mongolian Tugriks</i>	31 December 2021 Stage 1 (12-months ECL)	31 December 2020 Stage 1 (12-months ECL)
- Excellent	989,550,544	1,111,583,041
- Good	16,788,646	17,051,805
- Satisfactory	36,098,905	16,406,584
- Special monitoring	14,240,607	128,347,814
Gross carrying amount	1,056,678,702	1,273,389,244
Less: Credit loss allowance	(231,192)	(244,783)
Carrying amount	1,056,447,510	1,273,144,461

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

10 Investments in Debt Securities

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Debt securities at FVTOCI	1,808,800,791	1,242,830,827
Debt securities mandatorily measured at FVTPL	165,954,333	116,890,897
Debt securities at AC	4,684,750	4,678,896
Total investments in debt securities	1,979,439,874	1,364,400,620

The significant increase in Debt securities at FVTOCI relates to the additional investment in Bank of Mongolia Treasury Bills and Corporate Bonds.

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

<i>In thousands of Mongolian Tugriks</i>	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

The table below discloses investments in debt securities at 31 December 2020 by measurement categories and classes:

<i>In thousands of Mongolian Tugriks</i>	Debt securities at FVTOCI	Debt securities mandatorily measured at FVTPL	Debt securities at AC	Total
Treasury bills of the Bank of Mongolia (a)	1,096,937,280	-	-	1,096,937,280
MIK bonds – Senior RMBS (b)	-	5,394,927	-	5,394,927
MIK bonds – Junior RMBS (b)	-	111,495,970	-	111,495,970
Government bonds (c)	145,893,547	-	4,741,411	150,634,958
Total investments in debt securities at 31 December 2020 (fair value or gross carrying value)	1,242,830,827	116,890,897	4,741,411	1,364,463,135
Less: Credit loss allowance	-	-	(62,515)	(62,515)
Total investments in debt securities at 31 December 2020 (carrying value)	1,242,830,827	116,890,897	4,678,896	1,364,400,620

10 Investments in Debt Securities (continued)

(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 1,563,001,736 thousands as at 31 December 2021 (31 December 2020: MNT 1,096,937,280 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 223,554,000 thousands (31 December 2020: MNT 20,193,000 thousands) and MNT 58,948,000 thousands with maturity of 28 days were collateralised by Repo arrangement (Note 23) and by Project on gold production-2 (Note-22) with Bank of Mongolia, respectively.

(b) MIK bonds

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

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

(c) Government bonds

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

Debt securities classified at AC represents investment securities held for satisfying the liquidity and business model in a "held to collect". Government bonds are not collateralised.

(d) 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%.

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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021 Stage 1 (12-months ECL)	31 December 2020 Stage 1 (12-months ECL)
Treasury bills of the Bank of Mongolia		
- Excellent	1,563,953,019	1,097,569,862
Total AC gross carrying amount	1,563,953,019	1,097,569,862
Less: Credit loss allowance	(951,283)	(632,582)
Carrying value (fair value)	1,563,001,736	1,096,937,280

The following table discloses government bonds measured at FVTOCI:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021 Stage 1 (12-months ECL)	31 December 2020 Stage 1 (12-months ECL)
Government bonds		
- Excellent	185,898,487	147,966,810
Total AC gross carrying amount	185,898,487	147,966,810
Less: Credit loss allowance	(2,675,792)	(2,073,263)
Less: Fair value adjustment from AC to FV	2,927,030	-
Carrying value (fair value)	186,149,725	145,893,547

The following table discloses corporate bonds measured at FVTOCI:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021 Stage 1 (12-months ECL)	31 December 2020 Stage 1 (12-months ECL)
Corporate bonds		
- Satisfactory	60,510,603	-
Total AC gross carrying amount	60,510,603	-
Less: Credit loss allowance	(861,273)	-
Carrying value (fair value)	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:

<i>In thousands of Mongolian Tugriks</i>	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
<i>Movements with impact on credit loss allowance charge for the period:</i>		
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
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	602,529	40,904,496
Derecognised during the period	-	-
Total gross carrying value	2,675,792	188,871,305
<i>Movements without impact on credit loss allowance charge for the period:</i>		
FX and other movements	-	(45,788)
At 31 December 2021	2,675,792	188,825,517
Corporate bonds at FVTOCI		
At 1 January 2021	-	-
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	861,273	60,533,309
Total gross carrying value	861,273	60,510,603
<i>Movements without impact on credit loss allowance charge for the period:</i>		
FX and other movements	-	(22,706)
At 31 December 2021	861,273	60,510,603

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:

<i>In thousands of Mongolian Tugriks</i>	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 2020	118,531	168,951,043
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	632,582	5,793,478,851
Derecognised during the period	(118,531)	(4,864,860,032)
At 31 December 2020	632,582	1,097,569,862
Government bonds at FVTOCI		
At 1 January 2020	6,283	561,586
<i>Movements with impact on credit loss allowance charge for the period:</i>		
New originated or purchased	2,066,980	349,703,413
Derecognised during the period	-	(202,098,094)
Total gross carrying value	2,073,263	148,166,905
<i>Movements without impact on credit loss allowance charge for the period:</i>		
FX and other movements	-	(200,096)
At 31 December 2020	2,073,263	147,966,809

10 Investments in Debt Securities (continued)

Investments in debt securities at AC

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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021 Stage 1 (12-months ECL)	31 December 2020 Stage 1 (12-months ECL)
Government bonds		
- Satisfactory	4,749,941	4,741,411
Total investments in debt securities measured at AC (gross carrying amount)	4,749,941	4,741,411
Less: Credit loss allowance	(65,191)	(62,515)
Total investments in debt securities measured at AC (carrying amount)	4,684,750	4,678,896

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:

<i>In thousands of Mongolian Tugriks</i>	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
<i>Movements with impact on credit loss allowance charge for the period:</i>		
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
At 31 December 2021	65,191	4,749,941

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:

<i>In thousands of Mongolian Tugriks</i>	Credit loss allowance Stage 1(12-months ECL)	Gross carrying amount Stage 1(12-months ECL)
Government bonds at AC		
At 1 January 2020	109,874	11,315,389
<i>Movements with impact on credit loss allowance charge for the period:</i>		
Changes to ECL measurement model assumptions	20,589	-
Derecognised during the period	(67,948)	(6,573,242)
Changes in accrued interest	-	(736)
Total movements with impact on credit loss allowance charge for the period	(47,359)	(6,573,978)
As at 31 December 2020	62,515	4,741,411

11 Investments in Equity Securities

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Equity securities at FVTPL	17,927,851	17,211,464
Equity securities at FVTOCI	544,864	12,283,858
Total investments in equity securities	18,472,715	29,495,322

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

<i>In thousands of Mongolian Tugriks</i>	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

The table below discloses investments in equity securities at 31 December 2020 by measurement categories and classes:

<i>In thousands of Mongolian Tugriks</i>	Equity securities at FVTPL	Equity securities at FVTOCI	Total
Corporate shares	17,211,464	12,283,858	29,495,322
Total investments in equity securities at 31 December 2020	17,211,464	12,283,858	29,495,322

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 15,345,248 thousands and MNT 2,450,864 thousands as of 31 December 2021 (2020: MNT 15,304,300 thousands and MNT 1,270,304 thousands) respectively.

(b) Investments in equity securities at FVTOCI

As of 31 December 2021, the Bank has invested in MNT 544,864 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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Gross carrying amount of loans and advances to customers at AC	3,110,945,995	3,001,716,158
Less: Credit loss allowance	(160,974,133)	(160,124,524)
Total carrying amount of loans and advances to customers at AC	2,949,971,862	2,841,591,634
Loans and advances to customers at FVTPL / Mortgage/	304,232,064	165,418,490
Loans and advances to customers at FVTPL / SME/	83,823,576	-
Loans and advances to customers at FVTPL / Corporate/	1,147,335	24,335,791
Total loans and advances to customers	3,339,174,837	3,031,345,915

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 2021 and 31 December 2020 are disclosed in the table below:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021			31 December 2020		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Loans to corporate customers						
Loans to Corporate	1,220,124,468	(26,680,865)	1,193,443,603	1,264,717,264	(21,067,845)	1,243,649,419
Loans to SME	825,665,816	(39,873,780)	785,792,036	690,021,507	(36,122,576)	653,898,931
Loans to individuals						
Consumer loans	722,421,933	(87,273,003)	635,148,930	734,739,072	(94,985,139)	639,753,933
Mortgage loans	342,733,778	(7,146,485)	335,587,293	312,238,315	(7,948,964)	304,289,351
Total loans and advances to customers at AC	3,110,945,995	(160,974,133)	2,949,971,862	3,001,716,158	(160,124,524)	2,841,591,634

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 2021, loss on initial recognition of loans at rates below market in the amount of MNT 2,636,090 thousand (31 December 2020: MNT 922,974 thousand) has been recorded in profit or loss for the year.

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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				
	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
In thousands of Mongolian Tugriks								
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

Golomt Bank LLC
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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:

In thousands of Mongolian Tugriks	Credit loss allowances				Gross carrying amount		
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)
Corporate							
At 1 January 2020	4,853,248	2,261,756	35,773,581	42,888,585	838,752,587	321,364,372	252,130,695
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	(284,134)	284,134	-	-	(35,930,304)	35,930,304	-
- to credit-impaired (from stage 1 and Stage 2 to Stage 3)	(462,891)	(795)	463,686	-	(52,549,884)	(110,384,373)	162,934,257
New originated or purchased	2,615,190	3,186	61,454	2,679,830	305,315,502	38,354,716	133,350,395
Derecognised during the period	(1,891,876)	(2,260,961)	(785,828)	(4,938,665)	(349,299,141)	(56,748,845)	(15,282,684)
Changes to ECL measurement model assumptions	-	(283,616)	59,845,389	59,561,773	-	(1,933,277)	(63,440,040)
Unwinding of discount	-	270,395	638,653	909,048	-	-	-
Changes in accrued interest	-	19,279	2,756,712	2,775,991	-	2,335,286	6,375,618
Other movements	583,066	469,266	4,951,206	6,003,538	(83,199,194)	(43,721,853)	18,202,994
Total movements with impact on credit loss allowance charge for the period	559,355	(1,499,112)	67,931,272	66,991,515	(215,663,021)	(136,168,042)	242,140,540
Movements without impact on credit loss allowance charge for the period:							
Write-offs	-	-	(83,259,960)	(83,259,960)	-	-	(83,259,960)
Transfer to repossessed collateral	-	-	(6,267,340)	(6,267,340)	-	-	(13,900,000)
FX and other movements	83,292	6,166	625,587	715,045	37,159,938	12,957,680	9,202,475
At 31 December 2020	5,495,895	768,810	14,803,140	21,067,845	660,249,504	198,154,010	406,313,750
							1,264,717,264

12 Loans and Advances to Customers (continued)

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12 Loans and Advances to Customers (continued)

In thousands of Mongolian Tugriks	Credit loss allowances			Gross carrying amount				
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
SME								
At 1 January 2020	2,340,345	778,844	16,945,396	20,064,585	492,018,337	43,602,419	168,034,068	703,654,824
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(215,439)	215,439	-	-	(39,421,316)	39,421,316	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(588,376)	(601,895)	1,190,271	-	(74,371,370)	(27,992,370)	102,363,740	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	47,657	(47,657)	-	-	6,462,291	(4,385,626)	(2,076,665)	-
- from Stage 3 to Stage 2		265,997	(265,997)	-		4,674,234	(4,674,234)	-
New originated or purchased	1,606,187	521,520	1,273,035	3,400,742	274,801,753	40,924,229	48,259,504	363,985,486
Derecognised during the period	(722,729)	(109,951)	(2,804,108)	(3,636,788)	(210,133,302)	(7,141,327)	(23,392,570)	(240,667,199)
Changes to ECL measurement model assumptions	(11,984)	108,040	9,734,846	9,830,902	(1,062,252)	(8,543,403)	(12,494,298)	-
Unwinding of discount	-	131,498	2,358,439	2,489,937	-	(48,526)	9,557,029	9,508,503
Changes in accrued interest	-	(562)	2,805,228	2,804,666	-	(1,410,796)	(71,195,942)	(131,897,477)
Other movements	(322,562)	(118,670)	1,747,729	1,306,497	(59,290,739)			
Total movements with impact on credit loss allowance charge for the period	(207,246)	363,759	16,039,443	16,195,956	(103,014,935)	35,497,731	46,346,564	(21,170,640)
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(273,409)	(273,409)	-	-	(300,472)	(300,472)
FX and other movements	19,597	-	115,847	135,444	2,953,906	251,128	4,632,761	7,837,795
At 31 December 2020	2,152,696	1,142,603	32,827,277	36,122,576	391,957,308	79,351,278	218,712,921	690,021,507

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12 Loans and Advances to Customers (continued)

	Credit loss allowances			Gross carrying amount		
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)
<i>In thousands of Mongolian Tugriks</i>						
Consumer						
At 1 January 2021	10,272,229	3,221,507	81,491,403	605,831,938	18,265,107	110,642,027
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			22,028,707	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)		(2,279,079)	11,418,080		(19,709,789)	19,709,789
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	178,801	(3,359,919)		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	-	-	331,479,146	-	-
Derecognised during the period	(5,639,571)	(3,166,800)	(16,654,857)	(25,461,228)	(9,252,039)	(41,196,673)
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	(12,202)	2,918,116
Other movements	17,039	2,368,907	(3,617,881)	1,077,602	12,107	(5,919,519)
				(1,231,935)		(4,829,810)
Total movements with impact on credit loss allowance charge for the period	(2,538,068)	(1,511,554)	(3,447,655)	25,387,631	(8,307,492)	(29,236,727)
						(12,156,588)
<i>Movements without impact on credit loss allowance charge for the period:</i>						
Write-offs	(27,290)	(1,728)	(189,927)	(27,290)	(1,728)	(189,927)
FX and other movements	2,111	-	1,975	52,954	-	5,440
				(218,945)		(218,945)
				4,086		58,394
At 31 December 2021	7,708,982	1,708,225	77,855,796	631,245,233	9,955,887	81,220,813
						722,421,933

Golomt Bank LLC
Notes to the Financial Statements – 31 December 2021

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount			
	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
<i>In thousands of Mongolian Tugriks</i>								
Consumer								
At 1 January 2020	7,955,628	5,746,710	41,333,777	55,036,115	806,979,991	31,547,121	49,333,945	887,861,057
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(268,807)	268,807	-	-	(15,568,885)	15,568,885	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(674,461)	(2,980,290)	3,654,751	-	(56,985,442)	(14,292,877)	71,278,319	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1,947,245	(1,444,848)	(502,397)	-	9,036,478	(8,457,884)	(578,594)	-
- from Stage 3 to Stage 2	-	29,920	(29,920)	-	-	56,747	(56,747)	-
New originated or purchased	2,826,533	285,119	2,274,465	5,386,117	219,993,617	1,324,695	3,730,097	225,048,409
Derecognised during the period	(993,913)	(269,926)	(2,706,390)	(3,970,229)	(216,867,250)	(3,619,395)	(4,373,972)	(224,860,617)
Changes to ECL measurement model assumptions	(1,783,896)	1,948,808	27,028,837	27,193,749	(2,152,652)	(3,209,680)	(13,336,956)	(18,699,288)
Unwinding of discount	-	907,016	5,855,545	6,762,561	-	-	-	-
Changes in accrued interest	-	80,494	6,264,077	6,344,571	-	3,423,903	7,089,241	10,513,144
Other movements	1,290,939	(1,335,131)	(1,405,774)	(1,449,966)	(141,680,255)	(4,107,028)	(2,170,453)	(147,957,736)
Total movements with impact on credit loss allowance charge for the period	2,343,640	(2,510,031)	40,433,194	40,266,803	(204,224,389)	(13,312,634)	61,580,935	(155,956,088)
<i>Movements without impact on credit loss allowance charge for the period:</i>								
Write-offs	(28,855)	(16,833)	(276,669)	(322,357)	(28,856)	(16,833)	(276,668)	(322,357)
FX and other movements	1,816	1,661	1,101	4,578	3,105,192	47,453	3,815	3,156,460
At 31 December 2020	10,272,229	3,221,507	81,491,403	94,985,139	605,831,938	18,265,107	110,642,027	734,739,072

12 Loans and Advances to Customers (continued)

Golomt Bank LLC
Notes to the Financial Statements – 31 December 2021

12 Loans and Advances to Customers (continued)

	Credit loss allowances				Gross carrying amount		
	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)
<i>In thousands of Mongolian Tugriks</i>							
Mortgage							
At 1 January 2020	356,992	237,425	2,609,815	3,204,232	255,419,581	7,844,416	26,298,768
Movements with impact on credit loss allowance charge for the period:							
Transfers:							
- to lifetime (from Stage 1 to Stage 2)	(14,806)	14,806	-	-	(7,529,577)	7,529,577	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(37,371)	(117,644)	155,015	-	(17,373,341)	(3,583,709)	20,957,050
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	95,793	(95,793)	-	-	3,356,160	(2,876,409)	(479,751)
- from Stage 3 to Stage 2	-	-	-	-	-	-	-
New originated or purchased	683,676	39,769	8,086	731,531	86,859,750	1,339,810	1,292,942
Derecognised during the period	(18,215)	(20,485)	(229,783)	(268,483)	(26,041,906)	(859,648)	(1,985,526)
Changes to ECL measurement model assumptions	(114,267)	412,187	2,751,648	3,049,568	(468,791)	(235,264)	138,152
Unwinding of discount	-	39,219	276,672	315,891	-	-	-
Changes in accrued interest	-	13,136	271,417	284,553	-	1,059,943	611,152
Other movements	538,762	(53,687)	175,943	661,018	(33,533,740)	(849,705)	(4,622,273)
Total movements with impact on credit loss allowance charge for the period	1,133,572	231,508	3,408,998	4,774,078	5,268,555	1,524,595	15,911,746
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2020	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
At 31 December 2021	1,490,564	468,933	5,989,467	7,948,964	260,688,136	9,369,011	42,181,168
Total	1,490,564	468,933					

12 Loans and Advances to Customers (continued)

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

<i>In thousands of Mongolian Tugriks</i>	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

Movements in the expected credit loss allowance for loans to legal entities and individuals during 2020 of are as follows:

<i>In thousands of Mongolian Tugriks</i>	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	Total
Expected credit loss allowance at 1 January 2020	42,888,585	20,064,585	55,036,115	3,204,231	121,193,516
Credit loss allowance charge/(recovery) during the year	66,991,515	16,195,956	40,266,803	4,774,078	128,228,352
Transfer to repossessed collateral	(6,267,340)	-	-	-	(6,267,340)
Amounts written off during the year as uncollectible	(83,259,960)	(273,409)	(322,357)	(29,345)	(83,885,071)
Exchange difference	715,045	135,444	4,578	-	855,067
Expected credit loss allowance at 31 December 2020	21,067,845	36,122,576	94,985,139	7,948,964	160,124,524

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

12 Loans and Advances to Customers (continued)

- Write-offs of allowances related to assets that were written off during the period.

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 2021:

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
<i>Loans to Corporate</i>				
- 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
<i>Loans to SME</i>				
- 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
<i>Consumer loans</i>				
- 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

12 Loans and Advances to Customers (continued)

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
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

The credit quality of loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2020:

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to Corporate				
- Excellent	660,249,504	-	-	660,249,504
- Good	-	198,154,010	-	198,154,010
- Satisfactory	-	-	342,598,449	342,598,449
- Special monitoring	-	-	44,867,551	44,867,551
- Default	-	-	18,847,750	18,847,750
Gross carrying amount	660,249,504	198,154,010	406,313,750	1,264,717,264
Less: Credit loss allowance	(5,495,895)	(768,810)	(14,803,140)	(21,067,845)
Carrying amount	654,753,609	197,385,200	391,510,610	1,243,649,419
Loans to SME				
- Excellent	391,957,308	-	-	391,957,308
- Good	-	79,351,278	-	79,351,278
- Satisfactory	-	-	87,017,107	87,017,107
- Special monitoring	-	-	40,023,399	40,023,399
- Default	-	-	91,672,415	91,672,415
Gross carrying amount	391,957,308	79,351,278	218,712,921	690,021,507
Less: Credit loss allowance	(2,152,696)	(1,142,603)	(32,827,277)	(36,122,576)
Carrying amount	389,804,612	78,208,675	185,885,644	653,898,931

12 Loans and Advances to Customers (continued)

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Consumer loans				
- Excellent	605,831,939	-	-	605,831,939
- Good	-	18,265,107	-	18,265,107
- Satisfactory	-	-	27,090,371	27,090,371
- Special monitoring	-	-	11,657,293	11,657,293
- Default	-	-	71,894,362	71,894,362
Gross carrying amount	605,831,939	18,265,107	110,642,026	734,739,072
Less: Credit loss allowance	(10,272,229)	(3,221,507)	(81,491,403)	(94,985,139)
Carrying amount	595,559,710	15,043,600	29,150,623	639,753,933
Mortgage loans				
- Excellent	260,688,136	-	-	260,688,136
- Good	-	9,369,011	-	9,369,011
- Satisfactory	-	-	9,985,627	9,985,627
- Special monitoring	-	-	11,834,340	11,834,340
- Default	-	-	20,361,201	20,361,201
Gross carrying amount	260,688,136	9,369,011	42,181,168	312,238,315
Less: Credit loss allowance	(1,490,564)	(468,933)	(5,989,467)	(7,948,964)
Carrying amount	259,197,572	8,900,078	36,191,701	304,289,351

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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021		31 December 2020	
	Amount	%	Amount	%
Individuals	668,710,210	19.11%	667,504,857	20.92%
Trade - Whole & Retail	774,870,662	22.14%	535,026,489	16.76%
Mortgage & House maintenance	646,858,857	18.48%	477,656,805	14.97%
Mining & Exploration	404,192,337	11.55%	426,436,540	13.36%
Construction	159,140,634	4.55%	279,347,880	8.75%
Manufacturing	216,979,477	6.20%	275,620,815	8.64%
Finance	135,738,076	3.88%	169,129,530	5.30%
Maintenance	248,589,026	7.10%	78,591,940	2.46%
Transport & Communication	62,098,840	1.77%	68,638,098	2.15%
Car	27,062,774	0.77%	47,885,259	1.50%
Hotel & Restaurant	35,748,066	1.02%	35,289,107	1.11%
Real estate	32,773,630	0.94%	32,808,066	1.03%
Agriculture	19,795,614	0.57%	20,937,472	0.66%
Healthcare	17,090,053	0.49%	19,865,872	0.62%
Home appliances	17,093,077	0.49%	17,374,134	0.54%
Electricity & Oil	13,008,361	0.37%	16,150,641	0.51%
Education	15,688,844	0.45%	13,070,122	0.41%
Tourism	1,733,770	0.05%	8,714,285	0.27%
Social services	1,831,404	0.05%	919,383	0.03%
Entrepreneurship	176,847	0.01%	465,679	0.01%
Others	968,411	0.03%	-	0.00%
Public service	-	-	37,465	0.00%
Total loans and advances to customers carried at AC and at FVTPL before credit loss allowance	3,500,148,970	100.00%	3,191,470,439	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 2021:

<i>In thousands of Mongolian Tugriks</i>	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

Description of collateral held for loans to corporate and individual customers carried at amortised cost is as follows at 31 December 2020:

<i>In thousands of Mongolian Tugriks</i>	Loans to Corporate	Loans to SME	Consumer loans	Mortgage loans	Total
Loans collateralised by:					
- residential real estate	71,249,885	158,907,316	22,947,352	245,173,411	498,277,964
- other real estate	599,718,580	310,092,998	8,335,725	14,711,415	932,858,718
- tradable securities	126,004,341	1,882,760	-	-	127,887,101
- cash deposits	17,921,830	108,736,295	88,284,548	4,111,039	219,053,712
- machinery and equipment	84,278,287	44,621,898	36,262,639	1,164,847	166,327,671
- credit enhancements	306,964,154	47,695,445	15,228,235	44,025,022	413,912,856
Total	1,206,137,077	671,936,712	171,058,499	309,185,734	2,358,318,022
Unsecured exposures	58,580,187	18,084,795	563,680,573	3,052,581	643,398,136
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	1,264,717,264	690,021,507	734,739,072	312,238,315	3,001,716,158

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.

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Loans to corporate customers:		
Loans to Corporate	373,390,027	607,811,234
Loans to SME	309,047,164	347,677,015
Loans to individuals:		
Consumer loans	146,419,606	111,081,424
Mortgage loans	155,746,393	153,705,991
Total significantly over-collateralised loans and advances to customers carried at AC	984,603,190	1,220,275,664

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 2021 is as follows:

<i>In thousands of Mongolian Tugriks</i>	Over-collateralized assets		Under-collateralized assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Credit impaired assets:				
<i>Loans carried at AC:</i>				
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

12 Loans and Advances to Customers (continued)

The effect of collateral on credit-impaired assets at 31 December 2020 is as follows:

<i>In thousands of Mongolian Tugriks</i>	Over-collateralized assets		Under-collateralized assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Credit impaired assets:				
<i>Loans carried at AC:</i>				
Corporate	222,081,376	507,198,232	184,232,373	83,543,565
SME	100,522,622	213,828,397	118,190,298	74,753,035
Consumer	6,033,221	10,814,585	104,608,807	6,578,462
Mortgage	20,199,438	36,405,950	21,981,731	15,582,589
Total	348,836,657	768,247,164	429,013,209	180,457,651

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 2021 and 31 December 2020:

<i>In thousands of Mongolian Tugriks</i>	Mortgage		SME		Corporate	
	31 Decem-ber 2021	31 Decem-ber 2020	30 Decem-ber 2021	31 Decem-ber 2020	31 Decem-ber 2021	31 Decem-ber 2020
Loans collateralised by:						
- residential real estate	302,657,034	164,535,646	13,261,329	-	-	-
- other real estate	1,464,031	848,882	65,604,828	-	-	-
- other assets	-	33,962	1,275,367	-	1,147,335	24,335,791
- guarantee	110,999	-	3,682,052	-	-	-
Total	304,232,064	165,418,490	83,823,576	-	1,147,335	24,335,791
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)	304,232,064	165,418,490	83,823,576	-	1,147,335	24,335,791

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 2021 and 31 December 2020 are as follows:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021		31 December 2020	
	Carrying value of the loan	Value of collateral	Carrying value of the loan	Value of collateral
Over-collateralised asset	331,305,512	467,877,994	141,130,778	175,577,995
Under-collateralised asset	57,897,463	42,602,000	48,623,503	40,611,609
Total	389,202,975	510,479,994	189,754,281	216,189,604

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 2021 and 31 December 2020:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Loans to corporate customers:		
Loans to Corporates	155,066,038	124,847,513
Loans to SMEs	27,982,554	30,922,453
Loans to individuals:		
Consumer loans	8,420,915	9,719,038
Mortgage loans	-	-
Total	191,469,507	165,489,004

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 848,111 thousands and amortised cost of modified loans was MNT 10,552,128 thousands as of 31 December 2021 (31 December 2020: MNT 549,771 thousands, MNT 24,270,443 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 2021 and 31 December 2020:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Investment properties at fair value at 1 January	39,671,913	42,387,502
Disposals	(17,818,069)	(7,454,724)
Transferred from non-current assets classified as held for sale	3,000,000	3,690,000
Transferred from repossessed collaterals	-	10,125,000
Transferred to premises and equipment	-	(3,627,173)
Transferred to repossessed collaterals	-	(3,670,046)
Fair value losses	(7,426,258)	(1,778,646)
Investment properties at fair value at 31 December 2021	17,427,586	39,671,913

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. Significant increase in disposal is mainly related to the sale of factory building, offices and garages.

During the year, MNT 3,000,000 thousands of assets /building/ 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 2021, rental income of MNT 113,524 thousands (31 December 2020: MNT 180,145 thousands) was generated from investment properties. Direct operating expenses arising from investment property that generated rental income during the period was MNT 18,157 thousands (31 December 2020: MNT 29,856 thousands).

Where the bank is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows at 31 December 2021 and 31 December 2020:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Not later than 1 year	42,750	66,103
Later than 1 year and not later than 2 years	-	15,750
Total future operating lease payments receivable	42,750	81,853

Accounting policy for investment properties is disclosed in Note 4.15.

14 Other Assets

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Other financial assets at FV:		
Precious metals	6,400,182	67,896,022
Total other financial assets at FV	6,400,182	67,896,022
Other financial assets at AC:		
Receivable from companies	5,864,935	5,201,377
Receivable from individuals	2,211,717	3,562,387
Receivables on cash and settlements services	1,513,068	942,541
Other financial assets	3,174,862	1,950,157
Less: Credit loss allowance	(4,378,717)	(5,537,260)
Total other financial assets at AC	8,385,865	6,119,202
Total other financial assets	14,786,047	74,015,224
Investment in investment fund	-	24,350,301
Other non-financial assets		
Prepayments for non-current assets	4,715,402	3,962,570
Prepayments for consultation services	2,640,000	-
Prepayments for employees' benefits	3,691,681	3,634,506
Prepayments for rent	676,680	500,125
Other prepayments	9,734,868	8,655,425
Other non-financial assets	3,727,684	6,148,274
Total non-financial assets	25,186,315	22,900,900
Total other assets	39,972,362	121,266,425

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

As at 31 December 2020, the Bank owned 4.17% of investment units of the Fund, which invested its funds in real estate properties in early 2015. During 2021, the Bank fully withdrew the investment. In 2013, the Government of Mongolia passed the law for investment funds to be formed. The first investment fund was subsequently established (the "Fund"). The Fund is managed by a managing company domiciled in Mongolia, which is not related to the Bank's owners or management, and its main activity is making investments with funds of its customers. The Fund has operated since the special license was issued by the Financial Regulatory Commission in October 2015.

The prepayment in consultation service is related to long term consulting and advisory services to be received in relation to change in the banking law and the enforcement of the law, amendments to the accompanying legislation, and measures to be taken in accordance with the amendments.

14 Other Assets (continued)

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

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
<i>Receivables from companies</i>			
- 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
<i>Receivables from individuals</i>			
- 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
<i>Receivables on cash and settlements services</i>			
- 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
<i>Other financial asset</i>			
- 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)

Tables below contain an analysis of the credit risk exposure of other financial assets at AC at 31 December 2020.

<i>In thousands of Mongolian Tugriks</i>	Stage 1 (12-months ECL)	Stage 3 (lifetime ECL for credit impaired)	Total
Receivables from companies			
- Excellent	2,472,690	-	2,472,690
- Good	-	-	-
- Satisfactory	-	-	-
- Default	-	2,728,687	2,728,687
Gross carrying amount	2,472,690	2,728,687	5,201,377
Less: Credit loss allowance	(3,538)	(2,728,687)	(2,732,225)
Carrying amount	2,469,152	-	2,469,152
Receivables from individuals			
- Excellent	802,031	-	802,031
- Good	60	-	60
- Satisfactory	-	-	-
- Special monitoring	2,755	-	2,755
- Default	-	2,757,541	2,757,541
Gross carrying amount	804,846	2,757,541	3,562,387
Less: Credit loss allowance	(45,834)	(2,758,346)	(2,804,180)
Carrying amount	759,012	(805)	758,207
Receivables on cash and settlements services			
- Excellent	941,686	-	941,686
- Default	-	855	855
Gross carrying amount	941,686	855	942,541
Less: Credit loss allowance	-	(855)	(855)
Carrying amount	941,686	-	941,686
Other financial asset			
- Excellent	1,950,157	-	1,950,157
Gross carrying amount	1,950,157	-	1,950,157
Less: Credit loss allowance	-	-	-
Carrying amount	1,950,157	-	1,950,157

14 Other Assets (continued)

Movements in the provision for asset impairment are as follows at 31 December 2021:

<i>In thousands of Mongolian Tugriks</i>	Receivable from com- panies	Receivable from indi- viduals	Receivables on cash and settlement services	Other financial assets	Total
Provision for asset impairment at 1 January 2021	2,732,225	2,804,180	855	-	5,537,260
Provision/(reversal) for impairment during the year	1,957	453,182	33,431	51,282	539,852
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)	(1,424,472)	-	-	(1,426,025)
Provision for asset impairment at 31 December 2021	2,910,893	1,361,596	34,286	71,942	4,378,717

The receivables that are not expected to be fully paid are written off in accordance with the Board of Directors' resolution during 2021.

Movements in the provision for asset impairment during 2020 are as follows:

<i>In thousands of Mongolian Tugriks</i>	Receivable from com- panies	Receivable from individu- als	Receivables on cash and settle- ment services	Total
Provision for asset impairment at 1 January 2020	2,881,890	2,841,582	820	5,724,292
Provision/(reversal) for impairment during the year	675,270	86,306	-	761,576
Exchange difference	19,150	57,982	35	77,167
Amounts written off during the year as uncol- lectible	(844,085)	(181,690)	-	(1,025,775)
Provision for asset impairment at 31 December 2020	2,732,225	2,804,180	855	5,537,260

15 Intangible Assets

<i>In thousands of Mongolian Tugriks</i>	Computer software licences	Land use right	Total
Cost at 1 January 2020	32,310,696	673,313	32,984,009
Accumulated amortization	(18,613,998)	-	(18,613,998)
Carrying amount at 1 January 2020	13,696,698	673,313	14,370,011
Additions	5,311,699	-	5,311,699
Transfers	373,320	-	373,320
Amortisation	(3,300,686)	-	(3,300,686)
Carrying amount at 31 December 2020	16,081,031	673,313	16,754,344
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

Golomt Bank LLC

Notes to the Financial Statements – 31 December 2021

16 Premises and Equipment

<i>In thousands of Mongolian Tugriks</i>	Premises	Motor vehicles	Office equipment and computers	Furniture	Leasehold improvement	Construction in progress	Total premises and equipment
Cost/valuation at 1 January 2020	107,731,396	3,240,062	74,225,358	7,914,329	6,933,126	650,454	200,694,725
Accumulated depreciation	(5,068,128)	(1,283,560)	(39,779,477)	(3,059,446)	(3,755,284)	-	(52,945,895)
Carrying amount at 1 January 2020	102,663,268	1,956,502	34,445,881	4,854,883	3,177,842	650,454	147,748,830
Additions	4,259,824	65,000	6,832,365	438,605	992,525	-	12,588,319
Transfers	3,096,464	(32,954)	(294,603)	24,677	90	-	2,793,674
Disposals	(3,305,473)	-	(214,837)	(6,068)	-	-	(3,526,378)
Write-offs	-	-	(2,565,613)	(149,334)	(1,455,789)	-	(4,170,736)
Charge for the year	(3,031,063)	(316,976)	(10,849,388)	(473,959)	(1,316,560)	-	(15,987,946)
Transfers of accumulated depreciation	530,707	29,483	(122,798)	(11,306)	-	-	426,085
Disposals of accumulated depreciation	79,218	-	207,870	5,757	-	-	292,845
Write-offs of accumulated depreciation	-	-	2,552,945	148,179	1,269,638	-	3,970,762
Carrying amount at 31 December 2020	104,292,945	1,701,055	29,991,822	4,831,434	2,667,746	650,454	144,135,456
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)	(3,802,205)	-	(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 period	(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

16 Premises and Equipment (continued)

Premises have been revalued at fair value as at 31 December 2021. The valuation was carried out by an independent firm of appraisers, KPMG LLC who 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 was market value of the similar premises located in the Ulaanbaatar.

At 31 December 2021, the carrying amount of premises would have been MNT 95,165,144 thousands (2020: MNT 97,048,529 thousands) had the assets been carried at cost less depreciation.

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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Premises at revalued amount in the statement of financial position	102,159,805	104,292,945
Revaluation reserve presented in equity	(7,245,102)	(7,495,543)
Realised revaluation reserve	250,441	251,127
Premises at cost less accumulated depreciation	95,165,144	97,048,529

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 archives. Rental contracts are typically made for fixed periods of 1 year to 5 years but may have extension options as described below.

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

<i>In thousands of Mongolian Tugriks</i>	Buildings	Other	Total
Carrying amount at 1 January 2020	6,259,519	3,231	6,262,750
Additions	6,211,715	3,532,106	9,743,821
Disposals	(1,217,928)	-	(1,217,928)
Depreciation charge	(4,178,546)	(727,361)	(4,905,907)
Carrying amount at 31 December 2020	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

As of 31 December 2021, interest expense on lease liabilities was MNT 1,560,592 thousands (31 December 2020: MNT 1,385,422 thousands).

17 Right of Use Assets (continued)

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

<i>In thousands of Mongolian Tugriks</i>	Note	31 December 2021	31 December 2020
Expense relating to short-term leases	29	1,397,273	2,039,348

Total cash outflow for leases as of 31 December 2021 was MNT 8,117,052 thousands (2020: MNT 7,203,698 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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Financial assets at fair value	59,418,813	121,292,776
Non-financial assets at cost	109,706,448	129,006,234
Less: Impairment provision	(62,172,093)	(39,722,685)
Total repossessed collaterals	106,953,168	210,576,325

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 2021, the Bank recognised MNT 69,461,677 thousands (2020: MNT 95,255,910 thousands) repossessed collateral through foreclosure process and reclassified assets in value of MNT 80,235,055 thousands to Non-Current Assets classified as Held for Sale, following the management's intentions in relation to those assets.

During the year, MNT 11,860,012 thousands (2020: MNT 55,321,505 thousands) of assets were transferred from Non-Current Assets classified as Held for Sale to repossessed collateral.

Financial assets at fair value as of 31 December 2021 represent shares (equity securities) in two companies which the Bank has acquired in the process of settlement of overdue loans. The Bank is currently negotiating to sell shares of these two companies and one of them has been sold subsequently in early 2022. In 2021, fair value loss of those assets was MNT 61,873,963 thousands (2020: MNT 16,288,356 thousands).

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 2021 and 2020 are as follows:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Provision for repossessed collaterals at 1 January	39,722,685	6,077,773
Provision for impairment during the year	17,013,863	21,888,296
Provision of assets transferred to investment property	-	(1,978,658)
Provision of assets transferred from non-current assets held for sale	5,086,192	13,735,274
Provision of assets transferred from other assets	449,572	-
Amounts written off during the year as uncollectible	(100,219)	-
Provision for repossessed collaterals at 31 December	62,172,093	39,722,685

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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Office and commercial spaces	63,735,430	14,741,413
Residential apartments or houses	10,349,106	1,047,145
Buildings	-	10,991,262
Other	-	204,156
Total non-current assets held for sale	74,084,536	26,983,976

During 2021, the Bank sold offices, commercial spaces and residential apartments in amount of MNT 14,371,377 thousands (31 December 2020: 16,299,755 thousands). During the year, MNT 11,860,012 thousands of assets were transferred from Non-Current Assets classified as Held for Sale to repossessed collateral, MNT 5,164,055 thousands of assets were transferred from repossessed collateral to non-current asset held for sale.

20 Due to Other Banks

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Short-term placements of other banks	16,782,536	14,638,962
Total due to other banks	16,782,536	14,638,962

Amount due to other banks and financial institutions represent foreign currency and local currency accounts with Mongolian and foreign banks.

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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Individuals	3,226,617,157	3,085,685,582
- Current/demand accounts	411,897,832	259,533,209
- Demand deposits	536,054,590	542,637,015
- Term deposits	2,278,664,735	2,283,515,358
Legal entities	1,886,308,143	1,808,539,526
- Current/settlement accounts	1,282,428,342	1,072,214,508
- Demand deposits	101,671,072	319,624,716
- Term deposits	502,208,729	416,700,302
State and public organizations	269,204,943	325,361,021
- Current/settlement accounts	59,415,348	70,395,910
- Demand deposits	185,260,970	184,537,147
- Term deposits	24,528,625	70,427,964
Other	81,413,147	66,089,048
- Current/demand accounts	49,176,296	41,513,031
- Demand deposits	492,516	696,098
- Term deposits	31,744,335	23,879,919
Total customer accounts	5,463,543,390	5,285,675,177

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 2021, the aggregate amount of the top 30 biggest customers is MNT 1,175,753,305 thousands (31 December 2020: MNT 1,162,976,433 thousands) or 22% of total customer accounts (31 December 2020: 22%).

At 31 December 2021, included in customer accounts are deposits of MNT 50,981,406 thousands (31 December 2020: MNT 52,103,068 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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
(a) Borrowed funds under projects		
Borrowed funds under Project /MNT/	394,783,842	214,051,054
Borrowed funds under Project /USD/	229,457	275,262
Borrowed funds under Project /EUR/	-	93
Total borrowed funds under projects	395,013,299	214,326,409
(b) Borrowings from foreign banks and financial institutions		
Borrowings from other foreign bank /USD/	1,059,698,703	931,920,970
(c) Trade finance from foreign banks and financial institutions		
Trade finance from foreign banks and financial institutions /USD/	48,586,576	33,020,956
Trade finance from foreign banks and financial institutions /EUR/	6,147,449	21,165,174
Trade finance from foreign banks and financial institutions /CNY/	-	1,831,140
Total borrowings from foreign banks and financial institutions	1,114,432,728	987,938,240
TOTAL	1,509,446,027	1,202,264,649

(a) Borrowed funds under projects		
<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Government price stabilization program		
Housing mortgage program	228,790,214	119,388,583
Fuel reserve program	71,278,311	-
Project on gold production 2	57,113,160	10,067,210
Project loan of KFW bank	992,000	1,559,720
Other borrowing under project	937,500	937,500
Projects financed by Development Bank of Mongolia		
Wheat program	300,374	-
Project on national cashmere factories	-	37,898,469
Agriculture 2020 program	-	5,944,070
MNCCI leather processing project	-	202,196
Joint projects of Mongolian government and JICA		
Borrowings under SME industry support fund	6,020,716	7,594,175
Joint project of Credit guarantee fund and ADB		
Borrowings under SME industry support fund	904,084	-
Other government projects		
Borrowings under Agriculture and Rural Development Project	28,430,319	30,418,429
Other borrowing under project	229,457	275,262
Student development program	17,164	37,511
Borrowings under SME industry support fund	-	3,284
Total	395,013,299	214,326,409

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 10.5% p.a., while interest rate on most of the loans issued from these sources range between 3% and 12.13% 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.

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 4% p.a. with maturity date of 15 January 2031 and issued loans to SMEs at advantageous interest rate of 6% p.a.

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%, 3% 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.

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 5-14% p.a., with maturity date of 25 June 2025. The Bank bears the credit risk in this arrangement.

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 2027. The bank can grant loans with the interest rate of 8%. The Bank approves all loan disbursement or refinancing and bears the credit risk.

On 10 February 2020, the Bank participates in the Government program of financing project to support employment for providing small and medium sized loans to individuals and enterprises to create workplaces and manufacturing. The Bank received related funding from the General Agency for Labour Welfare Service at interest rate of 7% p.a., with maturity date of 1 July 2022. The Bank bears the credit risk in this arrangement.

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 6-9% p.a. with maturity date of 25 February 2024 and issued loans to mining companies at advantageous interest rate of 9-12% p.a.

The Bank participated in Wheat program 2021, funded by Development Bank of Mongolia to support planting companies to stabilize the price of food and increase the stock of food. As a part of this arrangement, the Bank received funding at interest rate of 9.1% p.a. with maturity of one year. The Bank can issue loans to customers at advantageous interest rate of 12.1% p.a. 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% p.a. with maturity date of 31 December 2022 and issued loans to the companies at advantageous interest rate of 9% p.a. The Bank approves all loan disbursement and bears the credit risk.

During 2021, the Bank received borrowings from Asian Development Bank at an interest rate of 5% p.a. The project with Credit guarantee fund of Mongolia purpose is to support SMEs` in long term. The bank can grant loans with the interest rate of 12-15% depending on the guarantee percentages. Both the Bank and CGF approves the loan disbursement and bears the credit risk separately.

22 Other Borrowed Funds (continued)

(a) Borrowed funds under projects (continued)

Furthermore, the Bank participates in another program, Agriculture sector, by Bank of Mongolia to support cashmere, wool, leather, wheat and rapeseed and meat companies. As a part of this arrangement, the Bank received interest subsidy at 7.65% p.a. with maturity of one year from Government. The Bank can issue loans to customers at advantageous interest rate of 3% p.a. During 2021, the programs have ended as per the terms of the agreement. The Bank has fully repaid all of outstanding amounts within these programs

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 2021 in thousands of original currency	Principle balance as of 31 December 2021 in thousands of MNT
Government stabilization program	Bank of Mongolia	Housing mortgage program	MNT	4/21/2016	12/15/2022	228,790,214	228,790,214
	Bank of Mongolia	Fuel reserve program	MNT	12/30/2021	12/31/2022	71,278,311	71,278,311
	Bank of Mongolia	Project on gold production 2	MNT	8/7/2020	9/2/2022	57,113,160	57,113,160
	Bank of Mongolia	Project loan of KfW bank	MNT	6/8/2012	6/25/2025	992,000	992,000
	Bank of Mongolia	Other borrowing under project	MNT	7/1/2020	7/1/2022	937,500	937,500
Projects financed by Development Bank of Mongolia	Development Bank of Mongolia	Wheat program	MNT	2/10/2021	2/10/2022	300,374	300,374
Joint projects of government and JICA	JICA	Borrowings under SME industry support fund	MNT	6/12/2009	10/1/2030	6,020,716	6,020,716
Joint projects of Credit guarantee fund and ADB	ADB	Borrowings under SME industry support fund	MNT	4/29/2021	12/31/2032	904,084	904,084
Other government projects	Government	Borrowings under Agriculture and Rural Development Project	MNT	5/5/2016	7/1/2027	28,430,319	28,430,319
	Government	Student development program	MNT	11/30/2016	11/30/2026	17,164	17,164
	Government	Other borrowing under project	USD	4/1/2010	5/1/2027	81	229,457

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 97 months as of 31 December 2021 (2020: between USD 5,000 thousands and USD 100,000 thousands with maturity range of 13 months to 60 months). USD 305,000 thousands of those borrowings are collateralized by the Bank's current account at the lending banks.

During 2021, several borrowings have been obtained with total amount of USD 63,500 thousands with original maturity range of 12 to 60 months.

(c) Trade finance from foreign banks and financial institutions

The Bank obtained uncommitted revolving trade credit lines from international banks and financial institutions to fund its trade loans to customers. As of 31 December 2021 the Bank utilised MNT 159,228,691 thousands (31 December 2020: MNT 106,120,996 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 2021, 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 are disclosed in the Note 40.

23 REPO Arrangements

As of 31 December 2021, sale and repurchase agreements relate to placements from local banks bearing interest rate ranging from 6.0% to 6.5% p.a. (2020: from 6.5% p.a), with original maturities of 723 and 730 days (2020: 723 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.

24 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Other financial liabilities at AC:	61,772,998	89,831,222
Liabilities for settlements of transactions	43,600,802	19,134,868
Liabilities for loans sold to MIK with recourse	1,010,996	53,003,378
Trade payable	284,818	1,529,535
Provision for credit related commitments	938,074	2,897,006
Other	15,938,308	13,266,435
Other non-financial liabilities:	9,061,448	10,965,323
Taxes payable other than on income	2,881,161	9,236,305
Payables to employees	3,850,364	1,642,622
Other	2,329,923	86,396
Total other liabilities	70,834,446	100,796,545

24 Other liabilities (Continued)

During 2021, the Bank has not participated in any monetization transactions with MIK for selling of mortgage loans with recourse. The significant decrease in other liabilities is related to the fact that the Bank purchased back the Mortgage loan portfolio in the amount of MNT 36,174,902 thousands sold to MIK with recourse.

Liabilities for settlement transactions were increased as at 31 December 2021 in relation to the softening of the international border restrictions that resulted an increase in international payments comparing to those in December 2020.

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

<i>In thousands of Mongolian Tugriks except for number of shares</i>	Number of outstanding shares	Ordinary shares	Treasury shares	Share premium	Preference shares	Treasury preferred shares	Total
At 1 January 2020	32,014,498	32,014,498	-	135,171,702	25,778,900	-	192,965,100
Treasury stocks	(80,500)	-	(80,500)	(5,102,358)	-	(9,390,800)	(14,573,658)
Conversion of the subordinated loans	10,225,539	10,225,539	-	161,774,461	-	-	172,000,000
At 31 December 2020	42,159,537	42,240,037	(80,500)	291,843,805	25,778,900	(9,390,800)	350,391,442
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

The nominal registered amount of the Bank's issued share capital is MNT 168,638,148 thousand (2020: MNT 42,159,537 thousand). Share premium represents the excess of contributions received over the nominal value of shares issued. No ordinary shares were issued in 2021.

Ordinary shares:

The total authorised number of ordinary shares are 674,552,592 shares (31 December 2020: 42,159,537 shares), with a par value of MNT 250 per share (31 December 2020: MNT 1,000 per share).

On 22 July 2021, the Bank obtained an approval from Bank of Mongolia for an increase of the unit price of its ordinary shares from MNT 1,000 to MNT 4,000 for each ordinary share, which changed the balance of the paid in share capital from MNT 42,159,537 thousand to MNT 168,638,148 thousands and the par value of a share to MNT 4,000 per share from MNT 1,000 per share.

On 31 December 2021, the Bank obtained an approval from Bank of Mongolia for a split of ordinary shares with 1:16 ratio, which changed the par value of a share to MNT 250 per share from MNT 4,000 per share.

25 Share Capital (Continued)

The shareholders of the Bank as of 31 December 2021 and 31 December 2020 and the percentages of ownership are as follows:

Shareholder	31 December 2021	31 December 2020
	Ownership (%)	Ownership (%)
Golomt Financial Group LLC	90.47%	90.47%
Swiss-Mo Investment A.G	6.25%	6.25%
Golomt Investments Ltd	3.08%	3.08%
ESOP	0.20%	0.20%
Total	100%	100%

Preferred shares

Mr. Zorigt, a business partner of Mr. Bayasgalan, holds 25,778,900 preferred shares with USD 15,000,000, which is equivalent to MNT 25,778,900 thousands issued on 19 December 2013 and terms are further amended on 26 December 2013. Preferred shareholders have a right to receive dividend income of 6% from its investment subject to approval of Board of Directors meeting. Preferred shareholders have a priority right over ordinary shareholders in case of liquidation. In 2020, with a decision of shareholders meeting to purchase back its own preferred shares, 9,390,800 treasury preferred shares were reacquired at a price of MNT 1,438.82 per share.

26 Interest Income and Expense

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	405,726,646	477,412,592
Debt securities FVTOCI	90,177,800	36,740,081
Due from other banks at AC	21,178,571	22,218,950
Cash deposited in the Bank of Mongolia	8,343,480	13,921,180
Debt securities at AC	629,364	1,308,470
Reverse repurchase agreements at AC	430,319	280,514
Total interest income calculated using the effective interest method	526,486,180	551,881,787
Other similar income		
Loans and advances to customers at FVTPL	15,333,163	6,387,102
Debt securities FVTPL	12,958,259	11,863,497
Total other similar income	28,291,422	18,250,599
Total interest income	554,777,602	570,132,386
Interest expense		
Customer accounts	(219,370,453)	(301,275,891)
Other borrowed funds	(43,690,195)	(38,491,510)
Subordinated loans	-	(21,612,625)
Due to other banks	(1,165,596)	(977,853)
Repurchase agreements	(7,031,713)	(2,036,364)
Total interest expense	(271,257,957)	(364,394,243)
Other similar expense		
Lease liabilities	(1,560,592)	(1,385,422)
Total other similar expense	(1,560,592)	(1,385,422)
Total interest and other similar expense	(272,818,549)	(365,779,665)
Net interest income	281,959,053	204,352,721

26 Interest Income and Expense (continued)

Interest income from cash and balances with central bank includes of MNT 4,347,316 thousands (31 December 2020: MNT 9,358,409 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 2021. Increase in interest income in 2021 mainly relates to the debt securities at fair value through other comprehensive income increased as a result of the acquisition of treasury bills on the amount of MNT 17,628,500,000 thousands (2020: MNT 5,761,700,000 thousands). Decrease in interest income from loans and advances related to the overall decrease in the interest rates in relation to decrease in policy rate. During 2021, the interest expense of customer accounts have decreased due to the Covid law for banks to stop paying interest on demand deposits and reduction of deposit interest rates.

Interest income includes approximately MNT 34,714,061 thousands (31 December 2020: MNT 15,610,229 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 2021 and 2020 in accordance with IFRS requirements.

27 Fee and Commission Income and Expense

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Fee and commission income		
Commissions on operations with plastic cards	34,959,219	25,937,813
Remittance and other service fees	16,350,075	13,432,640
Commissions on documentary business and guarantees	7,226,156	5,550,921
Account service fee and commissions	3,558,151	3,779,078
Brokerage and other service fee	399,541	377,116
Total fee and commission income	62,493,142	49,077,568
Fee and commission expense		
Card transaction expense	(16,882,816)	(11,560,522)
Bank service expense	(3,455,651)	(2,879,959)
Online transaction expense	(1,024,110)	(1,111,910)
Brokerage and other service fee	(351,651)	(43,333)
Total fee and commission expense	(21,714,228)	(15,595,724)
Net fee and commission income	40,778,914	33,481,844

28 Other Operating Income

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Income from repayment of loans which were previously written off	2,387,514	1,846,809
Other	1,447,486	1,361,328
Total other operating income	3,835,000	3,208,137

29 Administrative and Other Operating Expenses

<i>In thousands of Mongolian Tugriks</i>	Note	2021	2020
Staff costs		51,099,483	41,298,424
Information, consulting and other professional services		30,546,073	28,214,327
Depreciation of premises and equipment	16	19,270,582	15,987,946
Depreciation of right of use assets	17	5,284,863	4,905,907
Amortisation of software and other intangible assets	15	3,837,579	3,300,686
Advertising and marketing services		3,491,855	3,691,587
Stationery expense		2,927,494	2,651,902
Security expense		2,711,355	2,162,967
Taxes (other than income tax)		2,266,791	1,996,394
Loan collection expenses		2,084,904	1,710,913
Telecommunications expense		1,828,331	1,511,093
Short term lease expense		1,397,273	2,039,348
Office cleaning expense		1,166,351	1,209,971
Utilities		1,070,331	1,256,955
Voluntary and mandatory insurance		1,052,974	618,156
Transportation		1,263,585	1,170,044
Entertainment		572,851	920,460
Travelling expenses		77,958	426,321
Donations		31,000	11,126
Other		5,157,964	5,930,057
Total administrative and other operating expenses		137,139,597	121,014,584

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Staff costs consist of:		
Salaries, wages and bonus	44,660,813	38,388,570
Contribution to social and health fund	5,212,296	1,974,054
Staff benefits	633,897	521,645
Pension fund	282,431	219,093
Staff training	310,046	195,062
Total staff costs	51,099,483	41,298,424

In 2021, the Bank has paid one off bonuses to its employees based on the result of the employee skill assessment. The increase in contribution to social and health fund is related to the discount that the bank employees received in 2020 according to the law of prevention, control and reduction of social and economic impact of coronavirus. During 2021, government has stopped the discount on social insurance premium.

30 Other gains/(losses), net

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Gains less losses on disposal of investment properties	830,859	(313,317)
Gains less losses on disposal of premises and equipment	82,161	124,982
Losses less gains on disposal of repossessed collateral	(2,780,939)	(11,044)
Losses less gains on disposal of non-current asset held for sale	414,498	(90,721)
Total other gains/(losses), net	(1,453,421)	(290,100)

In 2021, the Bank sold offices, commercial spaces and residential apartments in amount of MNT 26,057,471 thousands. Other gains less losses from disposal of assets are separately presented on the face of the income statement starting from 2021 as it provides more transparency rather than combining with other operating income. Comparative amount has been reclassified in line with the change in amount of MNT 290,100 thousand in the current period.

31 Income Taxes

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

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

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Current tax	30,465,021	624,052
Deferred tax	(3,830,793)	11,471,208
Income tax expense for the year	26,634,228	12,095,260

(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 (2020: MNT 6 billion) of taxable income, and 25% (2020: 25%) on the excess of taxable income over MNT 6 billion (2020: MNT 6 billion) in accordance with Mongolian tax legislation.

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Profit before tax	52,570,894	22,489,020
Theoretical tax charge at statutory rate (2021: 25%; 2020: 25%)	13,142,724	5,622,255
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	(2,250,395)	(1,247,957)
- Income which is taxed at different rates	(351,064)	649,048
- Non-deductible expenses	1,524,472	4,220,121
Unrecognised deferred tax assets	15,468,491	-
Unrecognised tax loss carried forward	-	2,572,089
Other	-	1,179,704
Income tax expense for the year	26,634,228	12,095,260

The Bank did not recognise deferred tax asset in relation to loss from decrease in fair value of financial repossessed collaterals (Note 18) during 2021 as it was considered non-recoverable (Note 3.19).

31 Income Taxes (continued)

(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.

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

<i>In thousands of Mongolian Tugriks</i>	1 January 2021	Credited/ (charged) to profit or loss	Charged directly to OCI	31 December 2021
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)
Other	(961,761)	(224,692)	-	(1,186,453)
Total deferred tax liabilities	(52,918,890)	333,580	-	(52,585,310)
Net deferred tax (liability)	(12,356,607)	3,830,793	(958,783)	(9,484,597)

31 Income Taxes (continued)

The tax effect of the movements in these temporary differences in 2020 is detailed below and is recorded at the rate of 25%:

<i>In thousands of Mongolian Tugriks</i>	1 January 2020	Credited/ (charged) to profit or loss	Charged di- rectly to OCI	31 Decem- ber 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	3,431,521	10,138,687	-	13,570,208
Impairment of buildings	10,728,578	(534,825)	-	10,193,753
Initial loss and modification loss related to loans and advances	4,685,154	90,015	-	4,775,169
Fair valuation of equity securities at FVTOCI	5,263,819	-	(976,416)	4,287,403
Loan and advances to customers	9,612,004	(5,887,986)	-	3,724,018
Prepaid income – loan origination fee and others	2,363,856	(57,764)	-	2,306,092
Credit loss allowance of securities at AC and FVTOCI	58,673	633,418	-	692,091
Credit loss allowance of due from other banks	209,850	(148,655)	-	61,195
Unrecoverable deferred tax asset	2,572,089	(2,572,089)	-	-
Tax losses carry forwards	-	952,354	-	952,354
Total deferred tax assets	38,925,544	2,613,155	(976,416)	40,562,283
Fair value changes of derivative financial instruments	(28,541,465)	(10,392,201)	-	(38,933,666)
Loans and advances to customers - interest income on loans overdue more than 90 days	(8,382,130)	(3,440,232)	-	(11,822,362)
Fair valuation of securities at FVTPL	(1,388,575)	47,712	-	(1,340,863)
Tax loss carry forwards	(522,357)	(299,642)	-	(821,999)
Total deferred tax liabilities	(38,834,527)	(14,084,363)	-	(52,918,890)
Net deferred tax asset/(liability)	91,017	(11,471,208)	(976,416)	(12,356,607)

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:

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Change in value of:		
<i>Items that will be reclassified to profit or loss:</i>		
Debt securities at fair value through other comprehensive income:		
- Gains less losses arising during the year	2,680,637	2,217,585
- Gains less losses reclassified to profit or loss upon disposal	626	(2,217,585)
Income tax recorded directly in other comprehensive income	(670,316)	-
<i>Items that will not be reclassified to profit or loss:</i>		
Gains less losses on investments in equity securities at fair value through other comprehensive income	1,153,870	3,905,911
Income tax recorded directly in other comprehensive income	(288,468)	(976,478)
Other comprehensive income	2,876,349	2,929,433

33 Dividends

<i>In thousands of Mongolian Tugriks</i>	2021		2020	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January				
Dividends declared during the year	-	1,709,458	-	1,695,909
Dividends paid during the year	-	(1,709,458)	-	(1,695,909)
Dividends payable at 31 December	-	-	-	-

34 Earnings per Share

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings per share are calculated as follows:

<i>In thousands of Mongolian Tugriks / except for number of shares /</i>	2021	2020
Profit/(loss) for the year attributable to the shareholders of the Bank	25,936,666	10,393,760
Less preference dividends declared	(1,709,458)	(1,695,909)
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	24,227,208	8,697,851
Weighted average number of ordinary shares in issue (thousands)	674,553	512,774
Earnings per ordinary share	35.92	16.96

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:

<i>In thousands of Mongolian Tugriks</i>	Liabilities from financing activities				Total
	Borrowed funds	Repo agreement	Lease liabilities		
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

<i>In thousands of Mongolian Tugriks</i>	Liabilities from financing activities				Total
	Borrowed funds	Subordinated debt	Repo agreement	Lease liabilities	
Liabilities from financing activities at 1 January 2020	916,032,162	172,027,616	24,876,114	6,524,901	1,119,460,793
Cash transactions					
Cash inflows	357,938,206	-	1,822,632,072	-	2,180,570,278
Cash outflows	(55,740,701)	(172,000,000)	(1,827,508,629)	(5,657,274)	(2,060,906,604)
Interest paid	(46,381,695)	(21,640,241)	(1,947,325)	(1,385,422)	(71,354,683)
Non-cash transactions					
Repayment of borrowings in debt securities at FVTPL	(40,197,200)	-	-	-	(40,197,200)
New leases	-	-	-	9,743,821	9,743,821
Interest accrued	43,195,660	21,612,625	2,036,364	1,385,422	68,230,071
Adjustments from modification of the agreements	(1,847,344)	-	-	-	(1,847,344)
Foreign exchange adjustments	29,265,562	-	-	-	29,265,562
Liabilities from financing activities at 31 December 2020	1,202,264,649	-	20,088,596	10,611,448	1,232,964,693

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 based lending. 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 2021 is set out below:

31 December 2021					
<i>In thousands of Mongolian Tugriks</i>	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	-	-		1,979,439,874	1,979,439,874
Investments in equity securities	-	-		18,472,715	18,472,715
<i>In thousands of Mongolian Tugriks</i>	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

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 2020 is set out below:

<i>In thousands of Mongolian Tugriks</i>	31 December 2020				
	Corporate	SME	Retail	Other	Total
Loans and advances to customers	1,267,985,210	653,898,931	1,109,461,774	-	3,031,345,915
Customer accounts	1,369,439,013	853,735,240	3,062,500,924	-	5,285,675,177
Investments in debt securities	-	-	-	1,364,400,620	1,364,400,620
Investments in equity securities	-	-	-	29,495,322	29,495,322
<i>In thousands of Mongolian Tugriks</i>	31 December 2020				
	Corporate	SME	Retail	Other	Total
Interest income	178,775,903	88,315,525	190,682,885	112,358,073	570,132,386
Interest expense	(59,557,962)	(21,821,396)	(224,719,767)	(59,680,540)	(365,779,665)
Net internal FTP income/expense	(36,096,647)	(21,804,628)	178,919,114	(121,017,839)	-
Net interest income	83,121,294	44,689,501	144,882,232	(68,340,306)	204,352,721
Credit loss allowance	(32,599,516)	(16,195,956)	(45,040,881)	-	(93,836,353)
Net interest income/(negative interest margin) after provision	50,521,778	28,493,545	99,841,351	(68,340,306)	110,516,368
Fee and commission income	7,360,549	11,507,123	11,030,687	19,179,209	49,077,568
Fee and commission expense	(334)	(597,445)	(2,449,740)	(12,548,205)	(15,595,724)
Net other non-interest income/expense	3,191,627	6,472,031	2,419,441	(12,577,707)	(494,608)
Administrative and other operating expenses	(9,060,103)	(17,274,161)	(40,324,171)	(54,356,149)	(121,014,584)
Profit before tax	52,013,517	28,601,093	70,517,568	(128,643,158)	22,489,020

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:

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Non-cash investing activities		
Proceeds from disposal of investment properties in the form of loan	(5,772,210)	(7,890,379)
Non-cash investing activities	(5,772,210)	(7,890,379)

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:

<i>In thousands of Mongolian Tugriks</i>	2021	2020
Non-cash financing activities		
Repayment of borrowings in debt securities at FVTPL	25,926,400	40,197,200
Non-cash financing activities	25,926,400	40,197,200

38 Financial Risk Management

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

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

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

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

38 Financial Risk Management (continued)

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

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

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

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

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

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

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

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the credit division's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are 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)

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

To address the uncertainties inherent in the current and future environment and to reflect all relevant risk factors not captured in our modelled results, we applied expert credit judgment in determining significant increases in credit risk since origination and our weighting in calculation of expected credit losses. We applied quantitative and qualitative adjustments for the impacts of the unprecedented macroeconomic scenarios arising from the COVID-19 pandemic, the temporary effects of the bank and government led payment support programs which may not completely mitigate future losses, and the impacts to particularly vulnerable sectors affected by the COVID-19 pandemic.

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 unlikelyness 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;

38 Financial Risk Management (continued)

- The borrower is more than 90 days past due on its contractual payments for SME and Corporate loans and more than 100 days past due for Consumer and Mortgage loans. The Management believes that 90 days past due criteria is no longer the right criteria for Default for Mortgage and Consumer loans due to payment holidays supported by the Government and softened asset classification and provisioning policy from Bank of Mongolia.

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, has not been rebutted with exception to Consumer and Mortgage lending for which the criteria is 45 days past due in its contractual payments due to temporary change in the Bank's policy. Please refer to Note 3 for more details.

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

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

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

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

The Bank has 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)

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 $(1 - \text{Recovery Rate})$.

38 Financial Risk Management (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, 70%-80% 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, except that it includes credit rating of “C” and below, which is defined as “in default” by Agencies.

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

38 Financial Risk Management (continued)

Average Cumulative Issuer-Weighted Global Default rates by Alphanumeric Rating, 1920-2020¹

Rating	Horizon 1 year	Rating	Horizon 1 year
Aaa	0.000%	Ba1	0.294%
Aa1	0.000%	Ba2	0.616%
Aa2	0.000%	Ba3	0.832%
Aa3	0.047%	B1	1.183%
A1	0.093%	B2	2.677%
A2	0.061%	B3	3.481%
A3	0.065%	Caa1	4.398%
Baa1	0.117%	Caa2	8.100%
Baa2	0.155%	Caa3	19.565%
Baa3	0.226%	Ca-C	36.901%

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.

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

For probability of default (PD), as the most debt securities are from sovereign sector issuer, the Bank uses Moody's report² 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, 1920-2020.*

² Source: *Sovereign Default and Recovery Rates, 1983-2020.*

38 Financial Risk Management (continued)

Issuer-Weighted Cumulative Sovereign Default Rates, 1983-2020²

Rating	1 years
Aaa	0.000%
Aa	0.000%
A	0.000%
Baa	0.000%
Ba	0.462%
B	2.473%
Caa-C	12.229%

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 (1983-2020)" 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 40% while in a periods of stagnation, losses within financial institutions experience an increase of 60%. Based on that, a multiplier for growth periods are given a multiplier of .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)

Weightings of the various macroeconomic indicators are determined using management's expert judgment and are multiplied by the applicable multiplier above based on the trend of the individual indicator. Management then determine the weightings of the 3 scenarios, being base, upside, and downside using expert judgment of the overall economic conditions and business environment within Mongolia. In 2020, the Bank has considered specifically the COVID-19 pandemic outlook for scenario analysis and provided different weighting assumptions for those economic segments which were heavily impacted by the pandemic.

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.

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

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

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

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

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

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

38 Financial Risk Management (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)

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
Less: Derivatives	1,306,097,206	(1,091,250,102)	(9,991,269)	4,061,224	208,917,059
Net balance sheet position	(292,781,472)	167,833,132	9,779,710	(5,059,290)	(120,227,920)

38 Financial Risk Management (continued)

The table below summarises the Bank's exposure to foreign currency exchange risk at 31 December 2020. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by currencies

<i>In thousands of Mongolian Tugriks</i>	MNT	USD	EUR	Other	Total
Monetary financial assets					
Cash and balances with central bank (other than mandatory reserve)	157,829,481	226,484,356	65,556,095	111,390,025	561,259,957
Mandatory cash balances with the Bank of Mongolia	89,408,122	154,050,075	-	-	243,458,197
Due from other banks	10,540,222	1,208,401,460	10,994,348	43,208,431	1,273,144,461
Investments in debt securities	1,216,433,810	147,966,810	-	-	1,364,400,620
Loans and advances to customers	2,859,754,605	148,161,451	19,448,966	3,980,893	3,031,345,915
Other financial assets	97,682,287	657,760	9,831	15,647	98,365,525
Total monetary financial assets	4,431,648,527	1,885,721,912	96,009,240	158,594,996	6,571,974,675
Monetary financial liabilities					
Due to other banks	1,361,283	3,304,142	62,813	9,910,724	14,638,961
Customer accounts					
- Current Accounts	748,134,147	566,031,676	22,284,407	107,206,428	1,443,656,658
- Demand Savings	617,478,076	427,941,208	35,841,831	18,336,929	1,099,598,044
- Term deposits	1,950,793,986	760,576,442	16,104,547	14,945,500	2,742,420,475
Other borrowed funds	189,851,021	989,417,220	21,165,268	1,831,140	1,202,264,649
REPO arrangements	20,088,596	-	-	-	20,088,596
Other financial liabilities	85,614,943	3,613,923	79,823	522,533	89,831,222
Total monetary financial liabilities	3,613,322,052	2,750,884,611	95,538,689	152,753,254	6,612,498,606
Less: Derivatives	1,140,116,888	(970,938,712)	-	36,436,627	205,614,803
Net balance sheet position	(321,790,413)	105,776,013	470,551	(30,594,885)	(246,138,734)

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:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
US Dollar strengthening by 15% (2020: strengthening by 15%)	25,174,970	15,866,402
US Dollar weakening by 15% (2020: weakening by 15%)	(25,174,970)	(15,866,402)
Euro strengthening by 15% (2020: strengthening by 15%)	1,466,957	70,583
Euro weakening by 15% (2020: weakening by 15%)	(1,466,957)	(70,583)
Other strengthening by 15% (2020: strengthening by 15%)	(758,894)	(4,589,233)
Other weakening by 15% (2020: weakening by 15%)	758,894	4,589,233

38 Financial Risk Management (continued)

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

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates fixed contractually on both assets and liabilities, are usually renegotiated to reflect current market conditions. The bank manages interest rate risk by estimating and monitoring interest rate exposure and setting limits to control and minimize interest rate risk. Methods 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 2021, if interest rates at that date had been 10% higher/(lower) (2020: 10% higher/lower) with all other variables held constant, profit or loss and equity for the year would have been MNT 12,022,792 thousands (2020: MNT 24,613,873 thousands) higher/(lower), mainly as a result of high net interest sensitivity gap and changes interest rates during 2021.

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 2021, if interest rates had been 10% higher/(lower) with all other variables held constant, the financial result for the year would have been MNT 18,318,333 thousands higher/(lower) (2020: MNT 15,986,180 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:

<i>In thousands of Mongolian Tugriks</i>	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 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
At 31 December 2020						
Financial assets	2,499,715,858	389,926,201	613,343,337	2,480,007,358	794,596,724	6,777,589,478
Financial liabilities	2,990,673,935	1,326,933,571	1,258,935,487	997,329,399	38,626,214	6,612,498,606
Net interest sensitivity gap at 31 December 2020	(490,958,077)	(937,007,370)	(645,592,150)	1,482,677,959	755,970,510	165,090,872

38 Financial Risk Management (continued)

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

<i>In % p.a.</i>	31 December 2021				31 December 2020			
	MNT	USD	EUR	Other	MNT	USD	EUR	Other
Assets								
Mandatory reserves at Bank of Mongolia	2.50%	-	-	-	2.50%	-	-	-
Due from other banks	-	1.40%	-	-	8.30%	1.60%	-	-
Loans and advances to customers	12.30%	7.90%	6.20%	6.40%	15.60%	10.90%	6.40%	8.00%
Investments in debt securities	6.30%	6.20%	-	-	6.50%	5.00%	-	-
Liabilities								
Due to other banks	3.90%	-	2.50%	-	2.00%	-	-	-
Customer accounts								
- Current/settlement accounts	-	-	-	-	-	-	-	-
- Demand deposits	1.40%	0.50%	0.30%	0.10%	5.10%	0.90%	1.20%	1.20%
- Time deposits	7.30%	2.20%	1.30%	1.60%	10.70%	3.90%	0.80%	2.70%
REPO agreements	6.10%	-	-	-	6.50%	-	-	-
Other borrowed funds	6.90%	2.20%	2.10%	-	6.80%	2.30%	2.40%	6.50%
Subordinated debt	-	-	-	-	12.60%	-	-	-

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 2021, if equity prices at that date had been 15% (2020: 15%) lower (higher) with all other variables held constant, profit and equity for the year would have been MNT 2,689,178 thousands (2020: MNT 2,581,719 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 (2020: 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 2021 and 31 December 2020. A major part of the financial liabilities for 31 December 2021 and 31 December 2020 relates to Mongolia. The management believes that the Bank's exposure to geographical concentration risk is mitigated due to relatively high customer diversification and industry diversification.

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

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

38 Financial Risk Management (continued)

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

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

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

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

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

	2021	2020
Average during the period	41.30%	40.25%
Highest	39.24%	33.21%
Lowest	44.85%	40.85%
	34.75%	28.10%

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 2021 and 31 December 2020 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.

Golomt Bank LLC
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38 Financial Risk Management (continued)

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

<i>In thousands of Mongolian Tugriks</i>	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	-	888,345,713	-	1,086,693,191
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	3,498,747,213	1,544,030,364	9,131,759,575
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	3,159,239,287	1,351,763,574	1,397,296,816	1,392,542,367	45,253,664	7,346,095,708
Credit related commitments						
Guarantee and LC	284,471,852	97,635,825	159,544,321	237,546,499	49,061,877	828,260,374
Credit Line undrawn	240,619,656	56,879,461	92,607,512	167,515,830	49,061,877	606,684,336
Net Gap	43,852,196	40,756,364	66,936,809	70,030,669	-	221,576,038
Accumulated Net Gap	(233,563,068)	(985,457,311)	(1,141,949,298)	1,868,658,347	1,449,714,824	957,403,494
	(233,563,068)	(1,219,020,379)	(2,360,969,677)	(492,311,330)	957,403,494	

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Notes to the Financial Statements – 31 December 2021

38 Financial Risk Management (continued)

The maturity analysis of financial instruments based on undiscounted contractual obligation at 31 December 2020 is as follows:

<i>In thousands of Mongolian Tugriks</i>	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 re-serve)	561,259,957	-	-	-	-	561,259,957
Mandatory cash balances with the Bank of Mongolia	243,458,197	-	-	-	-	243,458,197
Due from other banks	295,477,679	14,305,227	108,125,464	902,450,233	-	1,320,358,603
Investments in debt securities	1,099,685,714	-	-	7,181,987	505,314,697	1,612,182,398
Investments in equity securities	29,495,322	-	-	-	-	29,495,322
Loans and advances to customers	331,022,566	523,229,708	653,828,358	1,787,660,155	840,850,002	4,136,590,789
Derivative financial instruments-asset	(277,797)	-	516,106	205,376,494	-	205,614,803
Other financial assets	95,662,111	501,742	2,201,572	100	-	98,365,525
Total Financial Assets	2,655,783,749	538,036,677	764,671,500	2,902,668,969	1,346,164,699	8,207,325,593
Liabilities						
Due to other banks	14,638,962	-	-	-	-	14,638,962
Customer accounts	2,894,709,248	1,338,746,745	1,068,903,998	99,931,406	-	5,402,291,397
- Current accounts	1,445,822,546	-	-	-	-	1,445,822,546
- Demand deposits	1,099,484,995	103	1,058	135,232	-	1,099,621,388
- Term deposits	349,401,707	1,338,746,642	1,068,902,940	99,796,174	-	2,856,847,463
Other borrowed funds	392,718	18,983,432	276,084,984	949,004,301	48,265,914	1,292,731,349
REPO arrangements	-	-	-	19,999,557	-	19,999,557
Other financial liabilities	84,244,115	1,598,033	2,100,114	1,588,122	300,838	89,831,222
Total Financial Liabilities	2,993,985,043	1,359,328,210	1,347,089,096	1,070,523,386	48,566,752	6,819,492,487
Credit related commitments						
Guarantee and LC	240,278,361	118,918,189	94,067,664	202,069,555	57,482,942	712,816,711
Credit Line undrawn	227,669,292	34,396,839	43,614,003	156,663,177	55,543,998	517,887,309
	12,609,069	84,521,350	50,453,661	45,406,378	1,938,944	194,929,402
Net Gap	(578,479,655)	(940,209,722)	(676,485,260)	1,630,076,028	1,240,115,005	675,016,395
Accumulated Net Gap	(578,479,655)	(1,518,689,376)	(2,195,174,638)	(565,098,609)	675,016,396	

Golomt Bank LLC
Notes to the Financial Statements – 31 December 2021
38 Financial Risk Management (continued)

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

<i>In thousands of Mongolian Tugriks</i>	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	184,031,323	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)	1,704,418,936	846,591,903	316,078,914
Accumulated Net Gap	(180,160,882)	(1,184,115,909)	(2,234,931,925)	(530,512,990)	316,078,913	

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38 Financial Risk Management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap. The maturity analysis of financial instruments of the Bank at 31 December 2020:

<i>In thousands of Mongolian Tugriks</i>	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)	561,259,957	-	-	-	-	561,259,957
Mandatory cash balances with the Bank of Mongolia	243,458,197	-	-	-	-	243,458,197
Due from other banks	295,853,333	14,282,219	104,454,475	858,554,434	-	1,273,144,461
Investments in debt securities	1,096,937,280	-	-	5,256,341	262,206,999	1,364,400,620
Investments in equity securities	29,495,322	-	-	-	-	29,495,322
Loans and advances to customers	206,822,777	375,142,240	506,171,184	1,410,819,989	532,389,725	3,031,345,915
Derivative financial instruments-asset	(277,797)	-	516,106	205,376,494	-	205,614,803
Other financial assets	95,662,111	501,742	2,201,572	100	-	98,365,525
Total Financial Assets	2,529,211,180	389,926,201	613,343,337	2,480,007,358	794,596,724	6,807,084,800
Liabilities						
Due to other banks	14,638,962	-	-	-	-	14,638,962
Customer accounts	-	-	-	-	-	-
- Current accounts	1,443,656,658	-	-	-	-	1,443,656,658
- Demand deposits	1,099,484,995	-	-	-	-	1,099,484,995
- Term deposits	348,258,227	102	963	111,984	-	2,742,420,475
Other borrowed funds	1,306,513,524	1,000,039,326	87,609,398	887,931,299	38,325,375	1,202,264,649
REPO arrangements	390,978	18,821,912	256,795,085	20,088,596	-	20,088,596
Subordinated debt	-	-	-	-	-	-
Other financial liabilities	84,244,115	1,598,033	2,100,114	1,588,122	300,838	89,831,222
Total Financial Liabilities	2,990,673,935	1,326,933,571	1,258,935,488	997,329,399	38,626,213	6,612,498,606
Liquidity gap arising from financial instruments	(461,462,755)	(937,007,370)	(645,592,151)	1,482,677,959	755,970,511	194,586,194
Accumulated Net Gap	(461,462,755)	(1,398,470,125)	(2,044,062,276)	(561,384,317)	194,586,194	

38 Financial Risk Management (continued)

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

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

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

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

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 12% (2020:12%) risk weighted capital ratio and 9% (2020: 9%) core capital ratio in accordance with the requirements set by the Bank of Mongolia. As of 31 December 31 2021, 1% of a specific conservation buffer has been added to the core capital ratio of systemically influential banks in accordance with the regulations of 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 as reported internally to key management personnel that is prepared in accordance with the requirements of the Bank of Mongolia legislation based on IFRS financial statements:

	31 December 2021	31 December 2020
Core capital ratio	15.04%	15.07%
Risk weighted capital ratio	15.43%	15.47%
<u>Tier I capital</u>		
Ordinary shares	168,960,148	42,240,037
Share premium	169,486,044	291,843,805
Retained earnings	242,436,053	210,853,485
Other components of equity	54,468,576	62,817,996
Treasury stock	(322,000)	(80,500)
Total Tier I Capital	635,028,821	607,674,823
<u>Tier II capital</u>		
Preferred shares	25,778,900	25,778,900
Revaluation fund	-	3,747,772
Treasury stock/ Preferred shares	(9,390,800)	(9,390,800)
Total Tier II Capital	16,388,100	20,135,872
Total capital/capital base	651,416,921	627,810,695

The equity capital of the Bank amounted to MNT 658,662,023 thousand as of 31 December 2021 (31 December 2020: MNT 631,558,466 thousand). According to information provided internally to key management personnel, the Bank has complied with all externally imposed capital requirements as of 31 December 2021 and at the end of 2020.

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. The management communicates and discusses timing, nature and extent of the provision to be recognized on a timely basis with their best effort.

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 2021, MNT 47,274 thousand (31 December 2020: MNT 8,109 thousand) provision was booked due to legal claims.

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

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

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 that would not require immediate repayment of the borrowings as of 31 December 2021.

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.

40 Contingencies and Commitments (continued)

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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Financial guarantees issued	45,866,650	37,529,034
Performance guarantees issued	395,440,322	303,843,740
Letters of credit	165,377,364	176,514,535
Undrawn credit lines	221,576,038	194,929,402
Total credit related commitments	828,260,374	712,816,711
Less: Expected credit loss allowance for impairment of credit related commitments	(938,074)	(2,897,007)
Total credit related commitments	827,322,300	709,919,704

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 2021:

<i>In thousands of Mongolian Tugriks</i>	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

Movements in the expected credit loss allowance for credit related commitments to legal entities and individuals during 2020 are as follows:

<i>In thousands of Mongolian Tugriks</i>	Financial guarantees issued	Performance guarantees issued	Letters of credit	Total
Expected credit loss allowance at 1 January 2020	247,607	1,669,722	20,431	1,937,760
Provision for impairment during the year	233,082	554,758	171,407	959,247
Expected credit loss allowance at 31 December 2020	480,689	2,224,480	191,838	2,897,007

40 Contingencies and Commitments (continued)

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 4.23 for accounting policy of performance guarantee.

As of 31 December 2021, management concluded that provision for credit related commitments in the amount of MNT 938,074 thousands (31 December 2020: MNT 2,897,007 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 277,343,522 thousands as of 31 December 2021 (31 December 2020: MNT 243,458,197) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations (Note 8).

As of 31 December 2021, Bank of Mongolia treasury bills in amount of MNT 223,554,000 thousands (31 December 2020: MNT 20,193,000 thousands) and in amount of MNT 58,948,000 thousands were collateralised for the repurchase agreement (Note 23) and a borrowing obtained under the project on gold production 2 (Note 22), respectively.

Correspondent accounts with other banks include current account of USD 305,000 thousands (31 December 2020: USD 305,000 thousands) with foreign banks, pledged as collateral for the loans obtained from these foreign banks (refer to Note 22).

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.

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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- Financial assets at fair value through profit or loss	218,372,256	220,188,099
- Financial liabilities at fair value through profit or loss	(9,455,197)	(14,573,296)
Foreign exchange forwards and swaps, net fair value	208,917,059	205,614,803

41 Derivative Financial Instruments (continued)

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of		
- USD receivable on settlement (+)	151,660,992	147,052,939
- USD payable on settlement (-)	(23,830,079)	(37,450,625)
- MNT receivable on settlement (+)	232,747,374	269,688,551
- MNT payable on settlement (-)	(163,973,130)	(176,728,972)
- Other currencies receivable on settlement (+)	23,820,472	11,792,360
- Other currencies receivable on settlement (-)	(11,508,570)	(8,739,450)
Net fair value of foreign exchange forwards and swaps	208,917,059	205,614,803

Financial assets of MNT 209,029,124 thousands as at 31 December 2021 (31 December 2020: MNT 205,892,600 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 1,028,689,759 thousands as of 31 December 2021 with original maturity range of 12 months to 96 months (31 December 2020: MNT 902,130,590 thousands with original maturity range of 12 months to 96 months).

As of 31 December 2021, gains from financial derivative resulted to MNT 3,136,525 thousands (31 December 2020: MNT 67,284,205 thousands), foreign exchange gain of MNT 213,000 thousands (31 December 2020: loss of MNT 26,192,000 thousands), net interest expense of MNT 21,838,590 thousands (31 December 2020: MNT 24,003,193 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.

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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:

In thousands of Mongolian Tugriks	31 December 2021			31 December 2020				
	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	2,197,175	-	163,757,158	165,954,333	-	-	116,890,897	116,890,897
Investments in debt securities at FVTOCI	245,799,055	-	1,563,001,736	1,808,800,791	145,893,547	-	1,096,937,280	1,242,830,827
Investments in equity securities at FVTPL	17,927,851	-	-	17,927,851	17,211,464	-	-	17,211,464
Investments in equity securities at FVTOCI	85,478	-	459,386	544,864	11,819,070	-	464,787	12,283,857
Loan and advances to customers at FVTPL	-	-	389,202,975	389,202,975	-	-	189,754,281	189,754,281
Reposessed financial assets	-	-	59,418,813	59,418,813	-	-	121,292,776	121,292,776
Derivative financial instruments-asset	-	208,917,059	-	208,917,059	-	205,614,803	-	205,614,803
Precious metals	6,400,182	-	-	6,400,182	67,896,022	-	-	67,896,022
Non-financial assets								
Premises	-	-	102,159,805	102,159,805	-	-	104,292,945	104,292,945
Investment properties	-	-	17,427,586	17,427,586	-	-	39,671,913	39,671,913
Total assets recurring fair value measurements								
	272,409,741	208,917,059	2,295,427,459	2,776,754,259	242,820,103	205,614,803	1,669,304,879	2,117,739,785

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 2021 and 31 December 2020:

<i>In thousands of Mongolian Tugriks</i>	2021	2020	Valuation technique	Inputs used
	Fair value	Fair value		
Other financial assets				
Financial derivatives	208,917,059	205,614,803	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 LIBOR, 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	208,917,059	205,614,803		

There were changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2021. 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 2021.

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 17,927,851 thousands (31 December 2020: MNT 17,211,464 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 6,400,182 thousands (31 December 2020: MNT 67,896,022 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 208,917,059 thousands (31 December 2020: MNT 205,614,803 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 1,726,758,894 thousand (31 December 2020: MNT 1,213,828,177 thousands, which were classified as level 3) are related to treasury bills of Bank of Mongolia and MIK Senior and Junior bonds.

Investments in equity securities, which are classified as level 3 for fair value measurement purposes, in the amount of MNT 459,386 thousands (31 December 2020: MNT 464,787, 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 2021, 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 172,675,889 thousands and 45,939 thousands (31 December 2020: MNT 121,382,818 thousands and MNT 46,479) 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 389,202,975 thousands (31 December 2020: MNT 189,754,281 thousands, which were classified as level 3) are related to Mortgage portfolio of loans, SME loan portfolio financed by long term REPO financing by the Bank of Mongolia and corporate loan classified at FVTPL which is a modified instrument that had been previously classified as a derivative financial instrument. The management determined fair value by discounting the future cash inflows using its market interest rate. As those FVTPL loans were under special government programs, market rate was defined as its own interest rate.

If the interest rate would increase/(decrease) by 10%, the fair value of those loans would increase/(decrease) by MNT 389,203 thousands (2020: MNT 189,754 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.

If the market price of repossessed financial assets, 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 5,941,881 thousand (2020: MNT 12,129,277 thousands).

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 2021:

<i>In thousands of Mongolian Tugriks</i>	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

Non-financial assets at 31 December 2020:

<i>In thousands of Mongolian Tugriks</i>	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	104,292,945	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	3,073-11,800	10%	10,429,295
Investment properties	39,671,913	Market comparison method	Market prices with appropriate adjustments, discounts/haircuts	563.8-3,412.6	10%	3,967,191
Total recurring fair value measurements at level 3	143,964,858					14,396,486

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 2021.

<i>In thousands of Mongolian Tugriks</i>	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

The valuation technique and inputs used in the fair value measurement at 31 December 2020.

<i>In thousands of Mongolian Tugriks</i>	Fair value	Valuation technique	Inputs used	Range of inputs (price per sq. m)	Sensitivity of fair value measurement
Non-current assets held for sale	26,983,976	Market comparison method	Market sales/rental prices with appropriate adjustments, discounts/haircuts	1,043 – 2,708	2,698,398

(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 2021 are as follows:

<i>In thousands of Mongolian Tugriks</i>	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with central bank (other than mandatory reserve)	115,856,223	579,098,197	-	694,954,420
Cash on hand	115,856,223	-	-	115,856,223
Current account with the central bank	-	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 assets not measured at fair value as of 31 December 2020 are as follows:

<i>In thousands of Mongolian Tugriks</i>	Level 1	Level 2	Level 3	Carrying amount
Financial assets				
Cash and balances with central bank (other than mandatory reserve)	126,009,968	435,249,989	-	561,259,957
Cash on hand	126,009,968	-	-	126,009,968
Current account with the central bank		435,249,989	-	435,249,989
Mandatory cash balances with the Bank of Mongolia	-	243,458,197	-	243,458,197
Due from other banks	-	1,273,144,461	-	1,273,144,461
Correspondent accounts with other banks				
Foreign	-	272,238,403	-	272,238,403
Domestic	-	2,686,086	-	2,686,086
Short term placements with other banks				
Domestic		10,011,849		10,011,849
Foreign		3,653,594		3,653,594
Placements with other banks with original maturities of more than three months	-	984,554,529	-	984,554,529
Loans and advances to customers	-	-	3,004,781,127	2,841,591,634
Corporate loans	-	-	1,314,589,399	1,243,649,419
Loans to small and medium business	-	-	705,533,429	653,898,931
Consumer loans to individuals	-	-	683,522,229	639,753,933
Mortgage loans to individuals	-	-	301,136,070	304,289,351
Debt securities at AC	-	4,678,897	-	4,741,411
Other financial assets	-	6,119,202	-	6,119,202
Total financial assets carried at amortised cost	126,009,968	1,962,650,746	3,004,781,127	4,930,314,862

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:

<i>In thousands of Mongolian Tugriks</i>	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 commitments	-	938,074	-	938,074
Other financial liabilities	-	60,834,924	-	60,834,924
Total financial liabilities carried at amor- tised cost	-	7,168,522,763	-	7,273,457,072

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 2020 are as follows:

<i>In thousands of Mongolian Tugriks</i>	Level 1	Level 2	Level 3	Carrying amount
Financial Liabilities				
Due to other banks	-	14,638,962	-	14,638,962
Short-term placements of other banks	-	14,638,962	-	14,638,962
Long-term placement of other banks	-	-	-	-
REPO Arrangements	-	20,088,596	-	20,088,596
Sale and repurchase agreements with other banks	-	20,088,596	-	20,088,596
Customer Accounts				
State and public organisations	-	325,164,468	-	325,361,021
- Current/settlement accounts	-	70,395,910	-	70,395,910
- Demand deposits	-	184,537,147	-	184,537,147
- Term deposits	-	70,182,121	-	70,427,964
Legal entities	-	1,766,584,199	-	1,808,539,526
- Current/settlement accounts	-	1,072,214,508	-	1,072,214,508
- Demand deposits	-	319,624,716	-	319,624,716
- Term deposits	-	374,744,974	-	416,700,302
Individuals	-	3,025,585,733	-	3,085,685,582
- Current/settlement accounts	-	259,533,209	-	259,533,209
- Demand deposits	-	542,637,015	-	542,637,015
- Term deposits	-	2,223,415,510	-	2,283,515,358
Other	-	65,316,313	-	66,089,048
- Current/settlement accounts	-	41,513,031	-	41,513,031
- Demand deposits	-	696,098	-	696,098
- Term deposits	-	23,107,184	-	23,879,919
Other borrowed funds	-	1,202,264,649	-	1,202,264,649
Provision for credit related commitments	-	2,897,006	-	2,897,006
Subordinated debt	-	-	-	-
Other financial liabilities	-	83,831,222	-	83,831,222
Total financial liabilities carried at amortised cost	-	6,506,321,859	-	6,609,395,612

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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 2021:

<i>In thousands of Mongolian Tugriks</i>	Amortised cost	FVTPL	FVTOCI (with recycling)	FVTOCI (no recycling)	Total
Financial assets					
Cash and balances with central bank (other than mandatory reserve)	694,954,420	-	-	-	694,954,420
Cash on hand	115,856,223	-	-	-	115,856,223
Cash balances with the central bank (other than mandatory reserve)	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
Reposessed 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

Golomt Bank LLC

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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 2020:

<i>In thousands of Mongolian Tugriks</i>	Amortised cost	FVTPL	FVTOCI (with recycling)	FVTOCI (no recycling)	Total
Financial assets					
Cash and balances with central bank (other than mandatory reserve)	561,259,957	-	-	-	561,259,957
Cash on hand	126,009,968	-	-	-	126,009,968
Cash balances with the central bank (other than mandatory reserve)	435,249,989	-	-	-	435,249,989
Mandatory cash balances with the Bank of Mongolia	243,458,197	-	-	-	243,458,197
Investments in debt securities	4,678,897	116,890,897	1,242,830,826	-	1,364,400,620
Investments in equity securities	-	17,211,464	-	12,283,857	29,495,322
Due from other banks	1,273,144,461	-	-	-	1,273,144,461
Correspondent accounts with other banks:					
Foreign	272,238,403	-	-	-	272,238,403
Domestic	2,686,086	-	-	-	2,686,086
Short term placements with other banks					
Domestic	10,011,849	-	-	-	10,011,849
Foreign	3,653,594	-	-	-	3,653,594
Placements with other banks with original maturities of more than three months	984,554,529	-	-	-	984,554,529
Loans and advances to customers	2,841,591,634	189,754,281	-	-	3,031,345,915
Corporate loans	1,243,649,419	-	-	-	1,243,649,419
Loans to small and medium business	653,898,931	-	-	-	653,898,931
Consumer loans to individuals	639,753,933	-	-	-	639,753,933
Mortgage loans to individuals	304,289,351	-	-	-	304,289,351
Mortgage loans to be sold to MLK with recourse	-	165,418,490	-	-	165,418,490
Corporate loan classified FVTPL	-	24,335,791	-	-	24,335,791
Derivative financial instruments-asset	-	205,614,803	-	-	205,614,803
Reposessed financial assets	-	121,292,776	-	-	121,292,776
Other financial assets	6,119,202	67,896,022	-	-	74,015,224
Precious metals	-	67,896,022	-	-	67,896,022
Receivable from companies	5,201,377	-	-	-	5,201,377
Receivable from individuals	3,562,387	-	-	-	3,562,387
Receivables on cash and settlements services	942,541	-	-	-	942,541
Other financial assets	1,950,157	-	-	-	1,950,157
Less: Provision for impairment	(5,537,260)	-	-	-	(5,537,260)
Total Financial Assets	4,930,252,348	597,367,467	1,242,830,826	12,283,857	6,904,027,274

As of 31 December 2021 and 31 December 2020, 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 shareholders, 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 2021 and 31 December 2020, refer to Note 1.

Golomt Bank LLC
Notes to the Financial Statements – 31 December 2021

44 Related Party Transactions (continued)

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

<i>In thousands of Mongolian Tugriks</i>	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

On 31 December 2020, the outstanding balances with the Bank's related parties were as follows:

<i>In thousands of Mongolian Tugriks</i>	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% - 23.4%)	1,676,747	24,335,791	33,397,548	59,410,086
Customer accounts (contractual interest rate 0% - 14.5%)	3,004,981	11,427,654	177,247,265	191,679,900

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

<i>In thousands of Mongolian Tugriks</i>	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

Golomt Bank LLC
Notes to the Financial Statements – 31 December 2021

44 Related Party Transactions (continued)

Movements in the loans and advances to the Bank's related party at 31 December 2020 were as follows:

<i>In thousands of Mongolian Tugriks</i>	Directors and key management personnel	Immediate parent company	Entities under common control	Total
Contractual interest rate	6% - 24%	3%	0% - 18.9%	
Loans to customers				
Loans to customers as at 1 January 2020	4,571,073	24,964,912	71,153,022	100,689,007
Loans to customers issued during the year	1,650,707	-	885,478	2,536,185
Loans to customers repaid during the year	(4,554,467)	221,038	(46,277,767)	(50,611,196)
Accrued interest as at 31 December 2020	16,325	945,612	8,709,389	9,671,326
Less: Credit loss allowance	(6,891)	-	-	(6,891)
Losses on initial recognition of loans at rates below market	-	(1,795,771)	(1,072,574)	(2,868,345)
Loans to customers as at 31 December 2020	1,676,747	24,335,791	33,397,548	59,410,086

Golomt Bank LLC
Notes to the Financial Statements – 31 December 2021

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 2021, the customer accounts balances and transactions with the Bank's related parties are as follows:

<i>In thousands of Mongolian Tugriks</i>	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

The customer account balances at the year-end and transactions with the Bank's related parties for 2020 are as follows:

<i>In thousands of Mongolian Tugriks</i>	Directors and key management personnel	Immediate parent company	Entities under common control	Total
Contractual interest rate	0% - 14.5%	0%	0% - 13.5%	
Customer accounts				
Customer accounts as at 01 January 2020	1,454,576	445,220	202,985,719	204,885,515
Customer accounts received during the year	17,574,355	97,952,344	2,437,710,307	2,553,237,006
Customer accounts repaid during the year	(16,124,558)	(86,971,978)	(2,467,378,106)	(2,570,474,642)
Accrued interest as at 31 December 2020	50,875	-	248,856	299,731
Exchange difference	49,733	2,068	3,680,489	3,732,290
Customer accounts as at 31 December 2020	3,004,981	11,427,654	177,247,265	191,679,900

44 Related Party Transactions (continued)

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

<i>In thousands of Mongolian Tugriks</i>	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	584,267
Fee and commission income	3,543	21,363	33,991	58,897
Dividend paid	-	-	1,709,458	1,709,458
Consulting	-	3,960,000	-	3,960,000

The income and expense items with the Bank's related parties for the year ended 31 December 2020 are as follows:

<i>In thousands of Mongolian Tugriks</i>	Directors and key management personnel	Immediate parent company	Entities under common control	Total
Interest income	170,398	945,612	5,484,986	6,600,996
Interest expense	110,819	21,628,621	2,445,751	24,185,191
Fee and commission income	2,795	6,579	66,510	75,884
Dividend paid	-	-	1,695,909	1,695,909
Consulting	-	2,913,240	-	2,913,240

The outstanding balance of the guarantee issued for the Bank's related parties for the year ended 31 December 2021 and 31 December 2020 is as follows:

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Guarantee		
Bank guarantees as at 01 January	1,760,190	239,270
Guarantees issued / exchange revaluation	53,400	1,956,781
Guarantee closed	(520,920)	(435,861)
Total credit related commitments	1,292,670	1,760,190
Less: provision for impairment of credit related commitments	-	-
Total credit related commitments	1,292,670	1,760,190

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

<i>In thousands of Mongolian Tugriks</i>	31 December 2021	31 December 2020
Salaries	3,680,875	2,636,874
Bonuses	574,105	294,290
Social security contributions	468,683	189,702
Total	4,723,663	3,120,866

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 Event after the End of the Reporting period

Ukraine-Russia conflict.

On 24 February 2022, Russia began a military invasion of Ukraine. Following the event, many countries began to impose sanctions on Russia's financial sector. Sanctions include freezing assets of Russian banks, politicians, and other related individuals, restricting access to securities. The most recent of these sanctions was the removal of some Russian banks from the SWIFT payment system. As a result, trade with Russia may be restricted and access to oil, natural gas and other exports could be limited. Mongolia might face a risk of increased fuel prices as the changes in world oil prices; however, uncertainty surrounding the war remains high. The sanctions imposed on Russia could further impact the Bank's ability to do make transactions with Russian counterparties.

As at 31 December 2021, the Bank had balance of MNT 14,238,813 thousands due from Russian banks. The management of the Bank is taking actions to withdraw the balance and assesses those balances as fully recoverable. Except for the exposure, the Bank has limited operations and businesses with Russian and Ukrainian counterparties; therefore management does not see significant threat to its business.

Extension of payment holiday for mortgage loans

In March 2022, the Government of Mongolia has made decision to extend payment holidays for mortgage loans from June 2022 until 31 December 2022 to support the economy.

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

46 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
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

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