# B O G D  B A N K  J S C

**(Incorporated in Mongolia)**

**Audited Financial Statements**
**31 December 2023**

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## General information

| | |
|---|---|
| BOARD OF DIRECTORS | Mr. Boldkhuyag L (Chairman)<br>Mr. Saruul G<br>Ms. Narantuya J<br>Mr. Byambajav E<br>Mr. Molomjamts D<br>Mr. Moyes Thomas Roger<br>Mr. J.Thorsten Düser<br>Ms. Oigonjargal B<br>Mr. Bayasgalan R |
| CORPORATE SECRETARY | Mr. Narmandakh.B |
| REGISTERED OFFICE | Bodi Tower building,<br>1st khoroo, Jigjidjav street 3,<br>Chingeltei district,<br>Ulaanbaatar 15160,<br>Mongolia |
| AUDITORS | Ernst & Young Mongolia Audit LLC<br>Certified Public Accountants |

**BOGD BANK JSC**

**STATEMENT BY THE EXECUTIVES**

We, Saruul Ganbaatar, being the Chief Executive Officer of Bogd Bank JSC (the "Bank"), and Bat-Ulzii Molomjamts, being the Chief Financial Officer, primarily responsible for the financial statements of the Bank, do hereby state that, in our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

**Saruul Ganbaatar**
Chief Executive Officer

**Bat-Ulzii Molomjamts**
Chief Financial Officer

Ulaanbaatar, Mongolia
Date: 22 March 2024

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# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Bogd Bank JSC**

## Opinion

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

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

## 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 are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matter

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

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment of loans and advances***<br><br>The impairment of loans and advances to customers at amortised cost is estimated by the Bank's management through the application of judgement and use of highly subjective assumptions.<br><br>Due to significance of loans and advances to customers at amortised cost, representing around 42% of the Bank's total assets as at 31 December 2023, and the related estimation uncertainty we considered impairment of loans and advances to customers as a key audit matter.<br><br>The impairment method is based on a forward-looking Expected Credit Loss ("ECL") approach. Elements of the ECL model requires significant estimates and assumptions, including: | For assessment of impairment allowance of loans and advances to customers as of 31 December 2023, our audit procedures included evaluating the methodologies, inputs and assumptions used by the Bank in its ECL model in calculation of impairment of loans and advances to customers.<br><br>In evaluating the methodologies, we obtained an understanding of the Bank's ECL model and management's basis for methodologies and assumptions applied and assessed the reasonableness of the model. We also considered the reasonableness of the assumptions applied including the basis for staging classification, the appropriateness of determination of PD, LGD and EAD, and the forward-looking macroeconomic variables incorporated in the model. |

**Key Audit Matter (cont'd.)**

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| • Staging of financial assets;<br>• Development of ECL models and the choice of inputs, including probability of default ("PD") and loss given default ("LGD");<br>• Determination of the Exposure at Default ("EAD"), including the credit conversion factor for the undrawn loan commitments;<br>• Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model; and<br>• Calculation of allowance for impairment losses of individually assessed loans which are based on various assumptions and factors in determining the expected future cash flows.<br>Relevant disclosures of the accounting policy and critical accounting estimates and judgements are included in note 2 to the financial statements.<br><br>Other relevant disclosures of loans and advances to the customers and related credit risk management are included in notes 2, 9, 17 and 30.2 to the financial statements, respectively. | In testing the appropriateness of the stage classifications, we have tested loan overdue information, credit ratings assigned to the counterparties, where applicable, at initial recognition and as at the reporting date.<br><br>We have also tested the completeness of the ageing report by agreeing the amounts in the ageing report to the financial records and tested the adequacy of the ageing information based on a random sampling selection basis by verifying the information against other supporting documents.<br><br>We compared the key inputs to the ECL model to the Bank's internal available historical data, externally available industry, financial and economic data. Our testing included the followings:<br><br>• Tested the historical PD and LGD applied to sample of loans against internal and external data;<br>• Checked the macroeconomic parameters to external data sources where available;<br>• Checked the appropriateness of the EAD of including the assumptions of the credit conversion factors; and<br>• For sample of individually assessed loans subject to individual impairment assessment, we reviewed the Bank's assumptions on the expected future cash flows, including assumptions in respect of the realizable value of collateral.<br><br>We also considered the consistency of judgement applied in the key inputs to the ECL model.<br><br>We assessed the adequacy of the related disclosure in the notes to the financial statements. |

**Other information included in the Annual Report**

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

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

We also provide the Audit Committee 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.

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

### Other Matter

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

Ernst & Young Mongolia Audit LLC

**ERNST & YOUNG MONGOLIA AUDIT LLC**
Certified Public Accountants

Signed by

**Mandakhbayar Dorjbat**
Partner

Approved by

**Adrian Chu**
Partner

Ulaanbaatar, Mongolia
Date: 22 March 2024

**BOGD BANK JSC**
**Statement of Profit or loss and other comprehensive income**
**For the year ended 31 December 2023**

| | Notes | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|---|
| Interest and similar income | 4 | 82,562,314 | 45,611,503 |
| Interest and similar expense | 5 | (42,345,797) | (16,258,468) |
| **Net interest income** | | **40,216,517** | **29,353,035** |
| Fee and commission income | 6 | 4,098,026 | 2,121,638 |
| Fee and commission expense | 6 | (1,323,828) | (602,073) |
| **Net fee and commission income** | | **2,774,198** | **1,519,565** |
| Net trading income | 7 | 701,775 | 2,044,326 |
| Other operating income | 8 | 1,688,216 | 1,220,937 |
| **Total operating income** | | **45,380,706** | **34,137,863** |
| Credit loss expense | 9 | (847,011) | (517,855) |
| **Net operating income** | | **44,533,695** | **33,620,008** |
| Operating expenses | 10 | (13,100,166) | (12,393,928) |
| **Profit before tax** | | **31,433,529** | **21,226,080** |
| Income tax expense | 11 | (3,232,146) | (2,169,603) |
| **Profit for the year** | | **28,201,383** | **19,056,477** |
| **Other comprehensive income/(loss) (net of tax):** | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax): | | | |
| *Net change in fair value of debt instruments at fair value through other comprehensive income* | 28 | 3,816,507 | (5,030,295) |
| *Gain/(Loss) on debt instrument reclassified to profit or loss* | 28 | (462,025) | 2,502,234 |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | | |
| *Net change in fair value of equity instruments at fair value through other comprehensive income* | 28 | – | (500,000) |
| **Other comprehensive income/(loss)** | | **3,354,482** | **(3,028,061)** |
| **Total comprehensive income for the year, net of tax** | | **31,555,865** | **16,028,416** |
| **Earnings per share (MNT):** | | | |
| Basic and diluted earnings per share | | 22.56 | 15.25 |

| | Notes | 31 December 2023 MNT'000 | 31 December 2022 MNT'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with BoM | **13** | 154,951,119 | 127,975,910 |
| Due from other banks and financial institutions | **14** | 60,656,693 | 51,241,913 |
| Financial investments | **15** | 131,805,575 | 69,625,463 |
| Derivative financial instruments | **16** | 723,943 | 433,677 |
| Loans and advances to customers | **17** | 312,151,051 | 208,605,193 |
| Other assets | **18** | 17,847,674 | 11,143,051 |
| Assets held for sale | **19** | 25,823,929 | 1,468,263 |
| Property and equipment | **20** | 4,319,141 | 4,197,543 |
| Right-of-use assets | **21** | 3,086,677 | 2,760,642 |
| Intangible assets | **22** | 958,579 | 931,856 |
| **TOTAL ASSETS** | | **712,324,381** | **478,383,511** |
| **LIABILITIES** | | | |
| Due to banks and other financial institutions | **23** | 16,112,969 | 43,347,904 |
| Repurchase agreements | **24** | 50,471,858 | 65,471,192 |
| Due to customers | **25** | 362,511,074 | 217,242,434 |
| Derivative financial instruments | **16** | 1,658,530 | 62,118 |
| Borrowed funds | **26** | 128,957,763 | 27,137,624 |
| Other liabilities | **27** | 6,429,984 | 4,333,099 |
| Lease liabilities | **21** | 3,409,558 | 2,955,777 |
| Income tax liabilities | **11.2** | 1,159,202 | 1,213,285 |
| **TOTAL LIABILITIES** | | **570,710,938** | **361,763,433** |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK** | | | |
| Share capital | **28** | 98,556,822 | 98,556,822 |
| Other reserves | **28** | 1,830,472 | (1,579,154) |
| Retained earnings | | 41,226,149 | 19,642,410 |
| **TOTAL EQUITY** | | **141,613,443** | **116,620,078** |
| **TOTAL LIABILITIES AND EQUITY** | | **712,324,381** | **478,383,511** |

**BOGD BANK JSC**
**Statement of Changes in Equity**
**For the year ended 31 December 2023**

| | Share capital MNT'000 | Other reserve MNT'000 | Retained earnings MNT'000 | Total equity MNT'000 |
|---|---|---|---|---|
| | (Note 28) | (Note 28) | | |
| As at 1 January 2023 | 98,556,822 | (1,579,154) | 19,642,410 | 116,620,078 |
| Profit for the year | – | – | 28,201,383 | 28,201,383 |
| Other comprehensive income | – | 3,354,482 | – | 3,354,482 |
| Regulatory reserve | – | 55,144 | (55,144) | – |
| Dividends (Note 28) | – | – | (6,562,500) | (6,562,500) |
| As 31 December 2023 | **98,556,822** | **1,830,472** | **41,226,149** | **141,613,443** |

| | Share capital MNT'000 | Other reserve MNT'000 | Retained earnings MNT'000 | Total equity MNT'000 |
|---|---|---|---|---|
| As at 1 January 2022 | 80,306,822 | 928,997 | 20,560,843 | 101,796,662 |
| Profit for the year | – | – | 19,056,477 | 19,056,477 |
| Other comprehensive income | – | (3,028,061) | – | (3,028,061) |
| Regulatory reserve | | 519,910 | (519,910) | – |
| Total comprehensive income | – | (2,508,151) | 18,536,567 | 16,028,416 |
| Dividends | – | – | (1,205,000) | (1,205,000) |
| Issue of share capital through stock dividend | 18,250,000 | – | (18,250,000) | – |
| As 31 December 2022 | **98,556,822** | **(1,579,154)** | **19,642,410** | **116,620,078** |

| | Notes | 2023 MNT’000 | 2022 MNT’000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Profit before tax** | | 31,433,529 | 21,226,080 |
| *Adjustments for:* | | | |
| Gain on disposal of equity securities | **7** | (5,065) | (9,775) |
| Gain on disposal of debt securities | **7** | (416,737) | (410,963) |
| Loss on valuation of equity investment at FVPL | **8** | 142,747 | 450,586 |
| (Gain)/loss on valuation of derivative financial instruments | **8** | 1,378,856 | (414,007) |
| (Gain)/loss on disposal of property and equipment | **8** | (30,467) | 7,551 |
| Gain on disposal of assets held for sale | **8** | (486,306) | – |
| Net charge/(reversal) for expected credit loss | **9** | | |
| Cash and balances with BoM | | 4,938 | (10,555) |
| Due from other banks and financial institutions | **9** | 54,949 | 1,898 |
| Loans and advances to customers | **9** | 966,878 | 325,930 |
| Debt instrument measured at FVOCI | **9** | 114,050 | 72,750 |
| Debt instrument measured at amortised cost | **9** | (130,779) | 124,335 |
| Other assets | **9** | (147,999) | (16,480) |
| Credit commitment | **9** | (15,026) | 19,977 |
| Depreciation of property and equipment | **10** | 982,750 | 911,032 |
| Amortisation of intangible assets | **10** | 181,395 | 454,391 |
| Depreciation of rights-of-use assets | **10** | 943,730 | 825,453 |
| Property and equipment written off | **10** | 10,301 | 13,367 |
| Interest expense of borrowed funds | **5** | 7,583,528 | 378,565 |
| Interest expense of derivative financial instruments | **5** | 8,226,394 | 56,256 |
| Accretion of interest on lease liability | **5, 21** | 524,714 | 437,697 |
| Interest income of derivative financial instruments | **4** | (6,362,681) | – |
| Unrealized foreign exchange (gain)/loss | **8** | (2,658,198) | (1,224,476) |
| **Operating profit before working capital changes** | | **42,295,501** | **23,219,612** |
| Changes in operating assets and liabilities: | | | |
| Statutory deposits with BoM | | (16,047,566) | (15,197,352) |
| Due from other banks and financial institutions | | (8,791,518) | (23,793,251) |
| Loans and advances to customers | | (103,605,169) | (61,040,183) |
| Other assets | | (28,881,983) | (4,085,935) |
| Due to banks | | (27,234,935) | 18,554,271 |
| Due to customers | | 145,268,640 | 80,128,161 |
| Repurchase agreement | | (14,568,241) | 13,373,870 |
| Other liabilities | | (1,803,404) | 4,973 |
| **Cash generated from/(used in) operations** | | **(13,368,675)** | **31,164,166** |
| Income taxes paid | **11.2** | (3,286,229) | (1,866,258) |
| Interest paid on derivative financial instrument, net | | (1,583,854) | (13,808) |
| Interest portion of the lease liability paid | | (520,238) | (394,042) |
| Interest paid on borrowed funds | | (4,877,828) | (23,344) |
| **Net cash flows generated from/(used in) operating activities** | | **(23,636,824)** | **28,866,714** |

| | Notes | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of financial investments | | (193,487,919) | (114,956,665) |
| Purchase of property and equipment | **20** | (1,159,693) | (2,323,915) |
| Purchase of intangible assets | **22** | (208,118) | (530,396) |
| Excess payment for foreclosed properties acquired | | (2,183,067) | (2,664,922) |
| Cash additions to right-of-use assets | | (74,458) | (188,508) |
| Purchase of loan portfolio | | (2,538,380) | – |
| Proceeds from disposal of assets held for sale | | 5,332,625 | 110,000 |
| Proceeds from disposal of property and equipment | | 75,511 | 87,540 |
| Dividend received | **7** | 3,004 | 67,298 |
| Proceeds from disposal of financial investments | | 154,561,142 | 84,919,291 |
| Proceeds from disposal of loan portfolio | | 500,000 | – |
| **Net cash flows used in investing activities** | | **(39,179,353)** | **(35,480,277)** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from drawdown of borrowed funds | | 228,502,316 | 36,543,631 |
| Repayment of borrowed funds | | (127,407,890) | (18,600,737) |
| Payment of principal portion of lease liabilities | | (746,003) | (634,642) |
| Dividend paid | **28** | (6,562,500) | (1,205,000) |
| **Net cash flows generated from financing activities** | | **93,785,923** | **16,103,252** |
| | | | |
| **Net increase in cash and cash equivalents** | | **30,969,746** | **9,489,689** |
| Cash and cash equivalents brought forward | **13** | 92,056,782 | 82,567,093 |
| **Cash and cash equivalents carried forward** | **13** | **123,026,528** | **92,056,782** |
| | | | |
| **OPERATIONAL CASH FLOW FROM INTEREST** | | | |
| Interest paid | | (21,172,174) | (10,335,111) |
| Interest received | | 52,704,793 | 41,952,307 |
| | | | |
| **NON-CASH ACTIVITIES** | | | |
| Non-cash dividend transferred to share capital | **28** | – | 18,250,000 |
| Additions to right-of-use assets and lease liabilities | **21** | 1,195,308 | 200,130 |
| Transfers from foreclosed properties to assets held for sale | **19** | 29,201,985 | 543,963 |
| | | | |
| **Reconciliation of changes in liabilities arising from financing activities:** | | | |
| **Lease liabilities** | | | |
| At 1 January | | 2,955,777 | 2,994,860 |
| Non-cash addition/deduction | | 1,195,308 | 551,904 |
| Interest expense during the year | | 524,714 | 437,697 |
| Interest portion of the lease liabilities paid | | (520,238) | (394,042) |
| Principal portion of lease liabilities paid | | (746,003) | (634,642) |
| **At 31 December** | | **3,409,558** | **2,955,777** |
| | | | |
| **Borrowed fund** | | | |
| **At January** | | 27,137,624 | 8,212,568 |
| New disbursement | | 228,502,316 | 36,543,631 |
| Repayment | | (127,407,890) | (18,600,737) |
| Interest repayment | | (4,877,828) | (23,344) |
| Net proceeds | | **96,216,598** | **17,919,550** |
| Foreign exchange movement | | (1,979,987) | 626,941 |
| Non-cash item arising from financing activity | | **(1,979,987)** | **626,941** |
| Interest accrued | | 7,583,528 | 378,565 |
| **At 31 December** | | **128,957,763** | **27,137,624** |

## 1. Corporate information

The Bank is engaged in the business of providing banking and financial services pursuant to License No.27 issued by the Bank of Mongolia ("BoM") in 2014. The Bank is a joint stock company listed on Mongolian Stock Exchange ("MSE"), incorporated and domiciled in Mongolia. Its registered office is at Bodi Tower, 1st khoroo, Jigjidjav street 3, Chingeltei district, Ulaanbaatar 15160, Mongolia.

The Bank is 73.06% owned by Bodi Capital LLC (2022: 73.06%), 6.94% owned by Bogd Capital Investment LLC (2022: 6.94%) and 20% (2022: 20%) owned by other minority shareholders.

The financial statements of the Bank for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Board of Directors on 22 March 2024.

## 2. Accounting policy

### 2.1 Basis of preparation

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

These financial statements have been prepared on a historical cost basis, except for debt and equity instruments at fair value through other comprehensive income ("FVOCI"), financial assets at fair value through profit and loss ("FVPL"), derivative financial instruments all of which have been measured at fair value and properties held for sale and foreclosed properties which are measured lower of carrying value and fair value less cost to sell. The financial statements are presented in Mongolian Togrog, which is denoted by the symbol MNT, and all values are rounded to the nearest thousands, except when otherwise indicated.

### 2.2 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 33.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts without being contingent on a future event and there is an intention to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or the counterparties.

Derivative assets and liabilities with master netting arrangements are only presented net when they satisfy the eligibility of netting for all of the above criteria and not just in the event of default.

### 2.3 New and amended standards and interpretations

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. These amendments had no material impact on the financial statements of the Bank during the period.

| | |
|---|---|
| • Amendments to IAS 1 and IFRS Practice Statement 2 | *Disclosure of Accounting Policies* |
| • Amendments to IFRS 17 | *Insurance contracts* |
| • Amendments to IAS 8 | *Definition of Accounting Estimates* |
| • Amendments to IAS 12 | *International Tax Reform – Pillar Two Model Rules* |
| • Amendments to IAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* |

### 2.4 Standards issued but not yet effective

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

## 2. Accounting policy (cont'd.)

### 2.4 New and amended standards and interpretations (cont'd.)

| | |
|---|---|
| • Amendments to IFRS 16 | *Lease Liability in a Sale and Leaseback*[1] |
| • Amendments to IAS 1 | *Non–current Liabilities with Covenants and Classification of Liabilities as Current or Non–current*[1] |
| • Amendments to IAS 7 and IFRS 7 | *Supplier Finance Arrangements*[1] |
| • Amendments to IAS 21 | *Lack of Exchangeability*[2] |
| • Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |

[1]*Effective for annual periods beginning on or after 1 January 2024*
[2]*Effective for annual periods beginning on or after 1 January 2025*
[3]*Effective period to be determined*

These amendments are not expected to have a material impact on the Bank's financial statements.

### 2.5 Material accounting policy information

**Foreign currency translation**

The functional currency of the Bank is the Mongolian Tugrik (MNT). Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non-trading activities are taken to other operating income/expense in statement of profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

**Recognition of interest income**

*The effective interest rate method*
Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

*Interest and similar income/expense*
Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the statement of profit or loss for both interest income and interest expense to provide symmetrical and comparable information.

In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in above.

Other interest income/expense includes interest on derivatives in economic hedge relationships and all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate.

Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in "Net trading income".

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Recognition of interest income (cont'd.)**

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (as set out in Note "Impairment of financial assets" and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note "Impairment of financial assets") and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

**Fee and commission income**

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations, as explained further below. When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified below). The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

*Fee and commission income from services where performance obligations are satisfied over time*
Fee and commission income earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees as follows:

*Fee income from providing transaction services*
Fees arising from negotiations or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees to components of fees that are liked to a certain performance obligation are recognised after fulfilling the corresponding criteria of the performance.

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

*Fees and commission expense*
Fee expense represents administration and fixed fee commission paid to the commercial banks. Fee expense is recognized when actual service has been provided. Components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

**Net trading income**

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading.

**Net gain or loss on financial assets and liabilities designated at FVPL**

Net gain or loss on financial instruments at FVPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationship, financial assets and financial liabilities designated as at FVPL and also non-trading assets measured at FVPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

**Net gain or loss on derecognition of financial assets measured at amortised cost or FVOCI**

Net gain or loss on derecognition of financial assets measured at amortised cost or FVOCI includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs or FVOCI calculated as the difference between the book value (including impairment) and the proceeds received.

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Financial instruments – initial recognition**

*Date of recognition*
Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Bank recognises balances of due to customer when funds are transferred to the Bank.

*Initial measurement of financial instruments*
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments, other than those measured at FVPL, are initially measured at their fair value including respective transaction costs. While financial instruments at FVPL are recognised at its fair value and any transaction costs are recognised in profit or loss. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

*Measurement categories of financial assets and liabilities*
The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
- Amortised cost
- FVOCI
- FVPL

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces income statement volatilty. Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

**Determination of fair value**

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments. The Bank estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself.
The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

## 2. Accounting policy (cont'd.)

### 2.5 Material accounting policy information (cont'd.)

### Financial assets and liabilities

***Due from banks, Loans and advances to customers, financial investments at amortised cost***

The Bank measures Due from banks, Loans and advances to customers and other financial investments at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

*Business model assessment*
The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model and, in particular, the way those risks are managed;
- Past experience with how the cash flows from these assets were obtained;
- The metrics used to measure and report on portfolio performance;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

*SPPI test*
As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

***Derivatives recorded at fair value through profit or loss***

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include cross currency interest rate swaps and forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in other operating income.

***Financial assets held for trading***

The Bank classifies financial assets as held for trading when they have been purchased primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in other operating income. Interest and

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Financial assets and liabilities (cont'd.)**

***Due from banks, Loans and advances to customers, financial investments at amortised cost (cont'd.)***

dividend income or expense is recorded in other operating income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

***Equity instruments at FVOCI***

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss even upon derecognition. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

***Debt instruments at FVOCI***

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained in Note 30. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

***Financial assets and financial liabilities at fair value through profit or loss***

Financial assets in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; Or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; Or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

***Debt issued and other borrowed funds***

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost using the EIR methodology. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

When establishing the accounting treatment of these non-derivative instruments the Bank first establishes whether the instrument is a compound instrument and classifies such instruments or components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. The Bank separately recognises the components of a

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Financial assets and liabilities (cont'd.)**

***Debt issued and other borrowed funds (cont'd.)***

financial instrument that: (a) creates a financial liability for the Bank; and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to its equity and liability components, the equity component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. The value of any derivative features (such as a call options) embedded in the compound financial instrument, other than the equity component (such as an equity conversion options) is included in the liability component. Once the Bank has determined the split between equity and liability, it further evaluates if the liability component has embedded derivatives which would require separation.

The Bank only separates the embedded derivatives from the host contract and accounts for them as a derivative when:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms of the embedded derivatives would meet the definition of a derivative
- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e., a derivative that is embedded in a financial asset or financial liability at FVPL is not separated).

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss.

The premium received is recognised in the statement of profit or loss in Net fees and commission income on a straight-line basis over the life of the guarantee. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL, if any are disclosed in Note 30.

***Due to customers***

This includes current, savings, time deposits and bank guarantee fund from customers. The Bank recognises due to customer balances when funds reach the Bank. After initial measurement, due to customers are subsequently measured at amortised cost using the EIR.

***Due to banks***

This includes deposits from other banks and financial institutions in foreign currency and local currency accounts and time deposits placed by local and foreign commercial banks and BoM. After initial measurement, due to banks are subsequently measured at amortised cost using the EIR.

***Reclassification of financial assets***

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

***Reclassification of financial assets and liabilities***

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Modification of financial assets and liabilities**

***Modification of financial assets***

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

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

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

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

***Modification of financial liabilities***

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

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

**Derecognition of financial assets and liabilities**

*Derecognition due to substantial modification of terms and conditions*

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

*Financial assets*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:
- The Bank has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients;

The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.
A transfer only qualifies for derecognition if either:
- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Derecognition of financial assets and liabilities (cont'd.)**

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

**Forborne and modified loans**

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

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

- All of its facilities have to be considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;
- The customer does not have any contracts that are more than 30 days past due

Details of forborne assets are disclosed in Note 30.

**Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

The derivatives, are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event and the Bank also intends to settle on a net basis in all the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Impairment of financial assets**

***Overview of the ECL principles***

The Bank records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk (SICR) since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a SICR are set out in Note 30.

The 12mECL is the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECL.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

***The calculation of ECLs***

The Bank calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD: The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD: The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD: The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

Cure rate: The cure rate is an estimate portion of defaulted loans that eventually recover from the default.

When estimating the ECL, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs, EADs and LGDs, relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instruments unless the Bank has the legal right to call it earlier.

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Impairment of financial assets (cont'd.)**

***The calculation of ECLs. (cont'd.)***

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

| | |
|---|---|
| Stage 1: | The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. |
| Stage 2: | When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR. |
| Stage 3: | For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%. |
| Loan commitments and letters of credit | When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions. |
| Financial guarantee contracts | The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using probability-weighting of the scenarios. The ECL relevant to financial guarantee contracts are recognised within Provisions. |

***Debt instruments measured at FVOCI***

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

***Credit cards and other revolving facilities***

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects its expectations of customer behaviour, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECL for these products is twelve months.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage. The interest rate used to discount the ECL for credit cards and overdrafts is based on annualised the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest.

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Impairment of financial assets (cont'd.)**

***Forward looking information***

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- Gross Domestic Product ("GDP")
- MNT/USD Exchange rate ("FX rate")
- Consumer price index ("CPI")
- Unemployment rate
- Total current and deposit balances of Mongolian banks

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

***Credit enhancements: Collateral valuation and financial guarantees***

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on annual basis. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices. Guarantees held are included in the measurement of loan ECLs when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended. Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL as an off-balance sheet item.

**Collateral repossessed**

Repossessed assets are initially recognised at the lower of their fair values less costs to sell and the carrying value of the related outstanding loans on the date of the repossession. Subsequently, repossessed assets are measured at the lower of their cost and fair value less costs to sell and are included in "Other assets".

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

**Assets held for sale**

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

**Write-offs**

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Cash and cash equivalents**

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

***Mandatory cash balances with the Bank of Mongolia***

Mandatory cash balances with the BoM are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

***Repurchase agreements***

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership.

The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'interest and similar income' and is accrued over the life of the agreement using the EIR.

**Securities lending and borrowing**

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Securities borrowed are not recognised in the statement of financial position, unless they are then sold to third parties, in which case, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

**Leases**

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

***Bank as a lessee***

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets.* The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets presented within Note 21 and are subject to impairment in line with the Bank's policy.

*Lease liabilities.* At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Leases (cont'd.)**

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

*Short-term leases.* The Bank applies the short-term lease recognition exemption to its short-term leases of certain office spaces (i.e., those leases that have a lease term of 12 months or less from the commencement date or spaces for ATMs). Lease payments on short–term leases are recognised as expense on a straight-line basis over the lease term.

*Significant judgement in determining the lease term of contracts with renewal options.* The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Bank included the renewal period as part of the lease term for leased office spaces due to the significance of these assets to its branch operations.

**Property and equipment**

Property and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property and equipment when the costs are incurred if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciation, respectively.

Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. Subsequent to initial recognition, items of property and equipment are subsequently stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

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

| Type of Asset | Estimated Useful Life in Years |
|---|---|
| Building | 25 |
| Office equipment and vehicles | 10 |
| Computers and others | 2 – 10 |

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date of the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. Construction in-progress is stated at cost, which includes cost of construction equipment and other direct costs less any impairment in value. Construction in-progress is not depreciated nor depleted until such time as the relevant assets are completed and put into operational use.

**Intangible assets**

The Bank's intangible assets include the value of computer software.
An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial yearend. Changes in the expected useful life or the expected

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Intangible assets (cont'd.)**

pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as part of 'other operating expense' in profit or loss.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives of three and ten years.

**Impairment of non–financial assets**

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit (CGU)'s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. when the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimate the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

**Provisions**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement in other operating expenses.

**Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the executive management committee whose members are responsible for allocating resources and assessing performance of the operating segments.

**Employee benefits**

*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.

*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.

**Taxes**

*Current tax*
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the country where the Bank operates and generates taxable income.

**2. Accounting policy (cont'd.)**

**2.5 Material accounting policy information (cont'd.)**

**Taxes (cont'd.)**

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax*
Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Current and deferred taxes are recognised as income tax benefits or expenses in the statement of profit or loss except for tax related to fair value remeasurement of debt instruments at FVOCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. The exceptions are subsequently reclassified from OCI to the statement of profit or loss together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only offsets its deferred tax assets against liabilities when there is both legal a right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis.

**Equity and dividends on ordinary shares**

Ordinary shares are classified as equity. The transaction costs of an equity transaction are accounted for as a deduction from the equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

**Other reserves**

The other reserves recorded in equity on the Bank's statement of financial position include fair value reserves of financial assets measured at FVOCI and Regulatory reserves.

The fair value reserves comprise of the cumulative net change in the fair value of the debt instruments classified at FVOCI, less the allowance for ECL, and the cumulative net change in fair value of equity instruments at FVOCI.

Regulatory reserve mainly represents a difference between impairment provision determined for loan loss and impairment of foreclosed assets in accordance with the regulations of BoM and impairment provision determined under IFRS. This reserve represents a part of other reserve and is distributable to shareholder of the Bank subject to BoM's approval.

**Earnings per share**

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

## 2. Accounting policy (cont'd.)

### 2.5 Material accounting policy information (cont'd.)

### Transactions with related parties

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. All material transactions and balances with the related parties are disclosed in the relevant notes to the financial statements and the detail is presented in Note 32.

### 2.6 Significant accounting judgments, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

### Estimates and assumptions

*Impairment losses on financial assets*
The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's staging assessment
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios, economic inputs, the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It is the Bank's policy to annually review its models in the context of actual loss experience and adjust when necessary.

## 2. Accounting policy (cont'd.)

### 2.6 Significant accounting judgments, estimates and assumptions

*Fair value of financial instruments*
When the fair value of derivative financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions could affect the reported fair value of derivative financial instruments. See Note 31 for further disclosures.

## 3. Segment reporting

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 CODMs are executive management committee members of the Bank. The functions of the CODM are performed by the Board of Directors of the Bank.

The Bank is organised on the basis of three main business segments based on products and services, as follows:
- *Retail banking*: Includes private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer and mortgages loans.
- *Business banking*: Includes corporate banking services, corporate customer current accounts, savings, deposits and SME loans.
- *Treasury banking*: Undertakes the Bank's funding and centralised risk management activities through borrowings, use of derivatives for risk management purposes and investing in assets such as short–term placements and corporate and government debt securities. Operation is the Bank's funds management activities.

All Bank's activities were carried out in Mongolia, therefore, no further geographical analysis is presented. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2023 and 2022.

**3. Segment reporting (cont'd.)**

The bank changed the structure of its internal organisation with the BOD resolution on 15 of August 2023. Following this change the business banking segment was identified. The bank has restated the corresponding items of segment information for earlier periods.

| **At 31 December 2023** | **Business Banking MNT'000** | **Retail Banking MNT'000** | **Treasury Banking MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| Interest revenue calculated using the effective interest method | 27,189,717 | 30,216,932 | 23,291,412 | 80,698,061 |
| Other interest and similar income | 391,565 | 478,580 | 994,108 | 1,864,253 |
| Interest expense calculated using the effective interest method | (13,740,985) | (15,262,773) | (13,342,039) | (42,345,797) |
| **Net interest income** | 13,840,297 | 15,432,739 | 10,943,481 | 40,216,517 |
| Fee and commission income | 2,427,340 | 1,670,686 | – | 4,098,026 |
| Fee and commission expense | (595,723) | (728,105) | – | (1,323,828) |
| **Net fee and commission income** | 1,831,617 | 942,581 | – | 2,774,198 |
| Net trading income | – | – | 701,775 | 701,775 |
| Credit loss expense on financial assets | (145,032) | (657,371) | (44,608) | (847,011) |
| Net gains/(losses) on financial assets at FVPL | – | – | (1,521,603) | (1,521,603) |
| Other operating income | 779,884 | 835,052 | 1,594,883 | 3,209,819 |
| **Net operating income** | 634,852 | 177,681 | 730,447 | 1,542,980 |
| Personnel expenses | (2,168,997) | (2,368,819) | (2,175,646) | (6,713,462) |
| Depreciation of property, equipment and right-of-use assets | (851,424) | (1,040,629) | (34,427) | (1,926,480) |
| Amortisation of intangible assets | (60,465) | (60,465) | (60,465) | (181,395) |
| Other operating expenses | (1,188,158) | (2,158,911) | (931,760) | (4,278,829) |
| **Total operating expenses** | **(4,269,044)** | **(5,628,824)** | **(3,202,298)** | **(13,100,166)** |
| **Segment profit before taxation** | **12,037,722** | **10,924,177** | **8,471,630** | **31,433,529** |
| Income tax expense | | | | (3,232,146) |
| **Profit for the year** | | | | **28,201,383** |
| Additions to property, equipment and right-of-use assets | 1,063,955 | 1,300,390 | – | 2,364,345 |
| Additions to other intangible assets | 93,653 | 114,465 | – | 208,118 |
| **Total Assets** | **247,746,379** | **255,635,664** | **208,942,338** | **712,324,381** |
| **Total Liabilities** | **(220,269,158)** | **(269,131,992)** | **(81,309,788)** | **(570,710,938)** |

**3. Segment reporting (cont'd.)**

| **At 31 December 2022** | **Business Banking MNT'000** | **Retail Banking MNT'000** | **Treasury Banking MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| Interest revenue calculated using the effective interest method | 13,035,432 | 19,553,149 | 11,600,200 | 44,188,781 |
| Other interest and similar income | 256,864 | 385,296 | 780,562 | 1,422,722 |
| Interest expense calculated using the effective interest method | (3,891,260) | (5,836,889) | (6,530,319) | (16,258,468) |
| **Net interest income** | 9,401,036 | 14,101,556 | 5,850,443 | 29,353,035 |
| Fee and commission income | 848,655 | 1,272,983 | – | 2,121,638 |
| Fee and commission expense | (240,829) | (361,244) | – | (602,073) |
| **Net fee and commission income** | 607,826 | 911,739 | – | 1,519,565 |
| Net trading income | – | – | 2,044,326 | 2,044,326 |
| Credit loss expense on financial assets | (131,771) | (197,656) | (188,428) | (517,855) |
| Net gains/(losses) on financial assets at FVPL | – | – | (450,586) | (450,586) |
| Other operating income | 2,692 | 4,038 | 1,664,793 | 1,671,523 |
| **Net operating income** | (129,079) | (193,618) | 3,070,105 | 2,747,408 |
| Personnel expenses | (1,563,253) | (2,344,880) | (1,520,103) | (5,428,236) |
| Depreciation of property, equipment and right-of-use assets | (678,687) | (1,018,031) | (39,767) | (1,736,485) |
| Amortisation of intangible assets | (178,121) | (267,182) | (9,088) | (454,391) |
| Other operating expenses | (1,621,114) | (2,431,670) | (722,032) | (4,774,816) |
| **Total operating expenses** | **(4,041,175)** | **(6,061,763)** | **(2,290,990)** | **(12,393,928)** |
| **Segment profit before taxation** | **5,838,608** | **8,757,914** | **6,629,558** | **21,226,080** |
| Income tax expense | | | | (2,169,603) |
| **Profit for the year** | | | | **19,056,477** |
| Additions to property, equipment and right-of-use assets | 1,220,649 | 1,491,904 | – | 2,712,553 |
| Additions to other intangible assets | 238,678 | 291,718 | – | 530,396 |
| **Total Assets** | **114,877,356** | **172,316,034** | **191,190,121** | **478,383,511** |
| **Total Liabilities** | **(100,910,229)** | **(151,365,343)** | **(109,487,861)** | **(361,763,433)** |

**4. Interest and similar income**

| | **2023 MNT'000** | **2022 MNT'000** |
|---|---|---|
| *Interest income calculated using the effective interest method* | | |
| Loans and advances to customers at amortised cost | 54,438,417 | 32,588,581 |
| Debt instruments at FVOCI | 15,477,941 | 7,900,251 |
| Due from banks and financial institutions | 1,153,110 | 1,047,046 |
| Debt instruments at amortised cost | 1,935,775 | 1,793,601 |
| Reverse repurchase agreements | 1,117,172 | 760,902 |
| Cash and balances with BoM | 212,964 | 98,400 |
| | **74,335,379** | **44,188,781** |
| *Other interest and similar income* | | |
| Debt instruments at FVPL | 994,108 | 780,562 |
| Loans and advances to customers measured at FVPL | 870,146 | 642,160 |
| Derivatives financial instruments | 6,362,681 | – |
| | **8,226,935** | **1,422,722** |
| | **82,562,314** | **45,611,503** |

### 5. Interest and similar expenses

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| *Interest expense calculated using the effective interest method* | | |
| Due to customers | 20,558,937 | 9,728,149 |
| Repurchase agreements | 4,307,033 | 5,247,206 |
| Due to banks and financial institutions | 1,145,191 | 410,595 |
| Lease liability (Note 21) | 524,714 | 437,697 |
| Borrowed funds | 7,583,528 | 378,565 |
| Derivative financial instruments | 8,226,394 | 56,256 |
| | **42,345,797** | **16,258,468** |

### 6. Net fee and commission income

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| *Fee income earned from services that are provided over time:* | | |
| Card related fees and commissions | 78,491 | 44,202 |
| Account service fees and commissions | 145,572 | 107,139 |
| Commission income on financial guarantee | 927,320 | 888,722 |
| | **1,151,383** | **1,040,063** |
| *Fee income from providing financial services at a point in time:* | | |
| Card related fees and commissions | 608,582 | 560,055 |
| Account service fees and commissions | 330,005 | 217,415 |
| Remittance and other service fees | 2,008,056 | 304,105 |
| | **2,946,643** | **1,081,575** |
| | **4,098,026** | **2,121,638** |
| Fees and commission expenses | | |
| Card transaction charges | (376,199) | (245,678) |
| Other charges | (947,629) | (356,395) |
| | **(1,323,828)** | **(602,073)** |
| **TOTAL** | **2,774,198** | **1,519,565** |

### 7. Net trading income

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| Gain on disposal of debt securities, net | 416,737 | 410,963 |
| Dividend income | 3,004 | 67,298 |
| Gain on disposal of equity securities, net | 5,065 | 9,775 |
| Trading foreign exchange gain, net | 276,969 | 1,556,290 |
| | **701,775** | **2,044,326** |

### 8. Other operating income

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| Loss on valuation of equity investment at FVPL | (142,747) | (450,586) |
| Gain/(loss) on valuation of derivative financial instruments | (1,378,856) | 414,007 |
| Non-trading foreign exchange gain, net | 2,658,198 | 1,224,476 |
| Gain/(loss) of disposal of property and equipment (Note 20) | 30,467 | (7,551) |
| Gain on disposal of assets held for sale | 486,306 | – |
| Others | 34,848 | 40,591 |
| | **1,688,216** | **1,220,937** |

### 9. Credit loss expense

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| *Net charge/(reversal) for credit loss:* | | |
| Cash and cash equivalents (Note 13) | 4,938 | (10,555) |
| Due from other banks and financial institutions (Note 14) | 54,949 | 1,898 |
| Debt instrument measured at FVOCI (Note 15) | 114,050 | 72,750 |
| Debt instrument measured at amortised cost (Note 15) | (130,779) | 124,335 |
| Loans and advances to customers (Note 17) | 966,878 | 325,930 |
| Other assets (Note 18) | (147,999) | (16,480) |
| Off-balance commitments (Note 29) | (15,026) | 19,977 |
| | **847,011** | **517,855** |

### 10. Other operating income

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| Salaries and wages | 6,713,462 | 5,428,236 |
| Professional service fee | 734,720 | 1,264,440 |
| Marketing and advertising expenses | 580,124 | 1,044,673 |
| Depreciation of property and equipment (Note 20) | 982,750 | 911,032 |
| Depreciation of right-of-use assets (Note 21) | 943,730 | 825,453 |
| Amortization of intangible assets (Note 22) | 181,395 | 454,391 |
| Maintenance expenses | 478,193 | 385,205 |
| Insurance | 573,101 | 288,163 |
| Business travel expenses | 185,510 | 116,000 |
| Rental expenses | 241,534 | 112,751 |
| Security | 88,347 | 80,179 |
| Write-off of property and equipment (Note 20) | 10,301 | 13,367 |
| Other operating expenses | 1,386,999 | 1,470,038 |
| | **13,100,166** | **12,393,928** |

The professional service fee includes audit fees charged by the auditors, amounting to MNT 208,175 thousand (2022: MNT 200,148 thousand).

## 11. Income tax

### 11.1 Income tax expense

The income tax expense for the year ended 31 December 2023 is:

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| Current income tax | 3,232,146 | 2,169,603 |

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

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

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| Profit before tax | 31,433,529 | 21,226,080 |
| Tax at statutory rate of 25% (2022: 25%) | 7,858,382 | 5,306,520 |
| Tax effect of revenues exempt from taxation | (470,268) | (174,881) |
| Tax effect of non-taxable income | (553,022) | (310,239) |
| Effect of expenses not deductible for income tax purpose | 201,643 | 225,461 |
| Tax effect of income subject to lower tax rate and income tax bracket | (3,804,589) | (2,877,258) |
| | **3,232,146** | **2,169,603** |

The effective income tax rate for 2023 is 10.28% (2022: 10.22%).

### 11.2 Income tax liabilities

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| Income tax liability as at 1 January | 1,213,285 | 909,940 |
| Income tax expense for the year | 3,232,146 | 2,169,603 |
| Income tax paid | (3,286,229) | (1,866,258) |
| Income tax liability as at 31 December | **1,159,202** | **1,213,285** |

## 12. Earnings per share

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| Profit attributable to ordinary equity holders | 28,201,383 | 19,056,477 |

| | 2023<br>Thousands | 2022<br>Thousands |
|---|---|---|
| Adjusted weighted average number of ordinary shares for EPS | 1,250,000,000 | 1,250,000,000 |

**Earnings per share**

| | 2023<br>MNT | 2022<br>MNT |
|---|---|---|
| **Equity holders of the Bank for the period:** | | |
| Basic earnings per share | 22.56 | 15.25 |

Basic earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year (See Note 28).

### 13. Cash and balances with BoM

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| Cash on hand | 3,929,201 | 3,008,601 |
| Current accounts with BOM | 12,260,475 | 24,333,797 |
| Deposits with BoM | 21,027,616 | 8,004,822 |
| BoM treasury bills | 76,526,505 | 67,463,996 |
| **Gross carrying cash and cash equivalents other than mandatory reserves** | **113,743,797** | **102,811,216** |
| Less: Allowance for impairment losses | (14,586) | (2,762) |
| **Net cash and cash equivalents other than mandatory reserves** | **113,729,211** | **102,808,454** |
| | | |
| Mandatory reserves with BoM | 41,227,850 | 25,180,284 |
| Less: Allowance for impairment losses on mandatory reserves with BoM | (5,942) | (12,828) |
| **Net cash and balances with BoM** | **154,951,119** | **127,975,910** |

Current accounts with BoM are maintained in accordance with BoM regulations. The balances maintained with BoM are determined at not less than 8% (2022: 8%) of customer deposits for local currency and not less than 18% (2022: 18.0%) of customer deposits for foreign currency based on average balance of 2 weeks. As at 31 December 2023, the average reserve required by the BoM for that period of 2 weeks was MNT 23,566,280 thousand (2022: MNT 9,609,565 thousand) for local currency and MNT 17,661,570 thousand (2022: MNT 15,570,719 thousand) for foreign currency maintained on current accounts with the BoM.

**Impairment allowance for cash and balances with BoM**

The table below shows the credit quality and the maximum exposure excluding cash on hand to credit risk based on the Bank's internal credit rating system and yearend stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 30:

| | Internal rating grade | Exposure at Default Stage 1 MNT'000 | ECL Stage 1 MNT'000 |
|---|---|---|---|
| 31 December 2023 | B | 151,042,446 | 20,528 |
| 31 December 2022 | B | 124,982,899 | 15,590 |

| **Impairment allowance on cash and balances with BoM** | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| At 1 January | 15,590 | 26,145 |
| Net charge/(reversal) for the year (Note 9) | 4,938 | (10,555) |
| At 31 December | **20,528** | **15,590** |

### 13.1 Additional cash flow information

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| Cash and balances with BoM (Note 13) | 113,743,797 | 102,811,216 |
| Due from banks and financial institutions with maturity of less than three months (Note 14) | 60,715,295 | 51,245,566 |
| | **174,459,092** | **154,056,782** |
| Less: Treasury bills placed as cash collateral in repurchase agreements (Note 24) | (35,300,000) | (62,000,000) |
| Less: Deposits placed as cash collateral in time deposits from banks and financial institutions (Note 23) | (16,132,564) | – |
| **Net cash and cash equivalents** | **123,026,528** | **92,056,782** |

## 14. Due from other banks and financial institutions

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| Due from domestic banks and financial institution | 48,546,435 | 44,998,977 |
| Due from foreign banks and financial institution | 12,168,860 | 6,246,589 |
| Gross carrying amount | 60,715,295 | 51,245,566 |
| Less: Allowance for impairment losses | (58,602) | (3,653) |
| Net due from banks and other financial institutions | **60,656,693** | **51,241,913** |

Due from banks and other financial institutions represent local and foreign currency current accounts maintained with foreign and local financial institutions.

**Impairment allowance for due from other banks and financial institutions**

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 30.

| | Internal rating grade | Exposure at default Stage 1 MNT'000 | ECL Stage 1 MNT'000 |
|---|---|---|---|
| 31 December 2023 | B | 60,715,295 | 58,602 |
| 31 December 2022 | B | 51,245,566 | 3,653 |

An analysis of changes in the ECL allowance as at 31 December 2023 and 2022 are as follows:

| **Impairment allowance on balance due from banks** | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| At 1 January | 3,653 | 1,755 |
| Net charge for the year (Note 9) | 54,949 | 1,898 |
| At 31 December | **58,602** | **3,653** |

## 15. Financial investments

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| **Financial assets at FVPL** | | |
| Senior RMBS (a) | 5,480,262 | 5,625,571 |
| Junior RMBS (a) | 2,948,006 | 2,299,382 |
| Junior ABS (h) | 794,528 | 2,940,544 |
| | **9,222,796** | **10,865,497** |
| **Debt instruments measured at FVOCI** | | |
| Unquoted BoM treasury bills (b) | 58,157,492 | 2,669,627 |
| Quoted government bonds (c) | 17,548,711 | 5,149,809 |
| Quoted corporate bonds (e) | 16,153,291 | 6,960,036 |
| | **91,859,494** | **14,779,472** |
| **Debt instruments at amortised cost** | | |
| Quoted government bonds (c) | 11,470,756 | 19,407,715 |
| Senior ABS (h) | 194,144 | 4,206,603 |
| Unquoted corporate bonds (d) | 8,233,007 | 9,103,247 |
| Less: Allowance for ECL | (108,102) | (244,389) |
| | **19,789,805** | **32,473,176** |

**15. Financial investments (cont'd.)**

| | | |
|---|---|---|
| **Reverse repo arrangements** | | |
| Cash collateral paid for reverse repos | 6,341,581 | 6,767,166 |
| Less: Allowance for ECL | (7,920) | (2,412) |
| | **6,333,661** | **6,764,754** |
| | | |
| **Equity instruments measured at FVOCI** | | |
| Unquoted equities (f) | 2,800,000 | 2,800,000 |
| | | |
| **Equity instruments measured at FVPL** | | |
| Quoted equities (g) | 1,799,819 | 1,942,564 |
| | **1,799,819** | **1,942,564** |
| | | |
| | **131,805,575** | **69,625,463** |

a. Residential mortgage-backed securities ("RMBS") represent Senior and Junior of an interest-bearing long-term securities issued by wholly owned special purpose companies of MIK Holding JSC ("MIK"). The Bank has sold fixed rate mortgage loans to MIK and received the RMBSs in exchange.
b. Unquoted BoM treasury bills are purchased either at par, premium or discount.
c. Quoted government bonds represent investment in government bonds listed in foreign market.
d. Unquoted corporate bonds are interest bearing short-term bonds issued by companies. As of 31 December 2023 and 2022, the Bank held short-term unquoted corporate bonds issued by Frontiers Capital LLC, Bogd leasing LLC and Bull capital NBFI and other private entities.
e. Quoted corporate bonds represent investment in MIK bonds listed in foreign market.
f. The Bank invested in 8.045% shares of Bodi Tower LLC and measured the equity investment at FVOCI, without-recycling under IFRS 9.
g. Quoted equities represent investments in equities listed on the MSE. The Bank holds investments in mutual funds of Ard and Mandal as well as share of Bodi Insurance JSC. The Bank received dividend of MNT 3,004 thousand from its investment in Ard Mutual fund shares. In 2022, the Bank received dividend of MNT 67,298 thousand from Bodi Insurance JSC (see Note 7).
h. Asset-backed securities ("ABS") represent Senior and Junior tranches of an interest-bearing long-term securities issued by wholly owned special purpose companies of Securities Financing Corporation LLC ("SFC"). The bank has sold fixed rate repurchase financed business loans to SFC and received the ABSs in exchange.

**Impairment allowance for financial investment**

The table below shows the fair value of the Bank's debt instruments measured at FVOCI and measured at amortised cost by credit risk including ECL allowance, based on the Bank's internal credit rating system and year-end stage classification. Both debt instruments have credit rating of B- to B+ and classified as stage 1. Details of the Bank's internal grading system and policies on whether ECL allowances set out in Note 30.

### 15. Financial investments (cont'd.)

**Impairment allowance for financial investment (cont'd.)**

| **Debt instruments measured at FVOCI** | **2023 MNT'000** | **2022 MNT'000** |
|---|---|---|
| Net carrying amount | | |
| As at 1 January | 14,779,472 | 16,078,854 |
| New assets originated or purchased | 121,727,463 | 39,547,568 |
| Changes in fair value (Note 28) | 3,702,457 | (5,103,045) |
| Payments and assets derecognised | (48,116,035) | (36,546,271) |
| Foreign exchange adjustments | (233,863) | 802,366 |
| **As at 31 December** | **91,859,494** | **14,779,472** |
| ECL allowance | | |
| At 1 January | 130,850 | 58,100 |
| New assets originated or purchased | 230,479 | 134,271 |
| Changes to input used for ECL calculation | (81,901) | (3,421) |
| Payments and assets derecognised | (34,528) | (58,100) |
| Net charge for the year (Note 9) | 114,050 | 72,750 |
| **At 31 December** | **244,900** | **130,850** |
| **Net financial investment** | **91,614,594** | **14,648,622** |

| **Debt instruments at amortised cost** | **2023 MNT'000** | **2022 MNT'000** |
|---|---|---|
| **Gross carrying amount** | | |
| At 1 January | 32,717,565 | 4,478,941 |
| Purchase/Addition | 10,417,046 | 36,965,613 |
| Assets derecognised or repaid | (23,118,608) | (8,873,454) |
| Foreign exchange adjustments | (118,096) | 146,465 |
| At 31 December | 19,897,907 | 32,717,565 |
| **ECL allowance** | | |
| At 1 January | 244,389 | 114,837 |
| New assets originated or purchased | 49,701 | 156,123 |
| Payments and assets derecognised | (185,988) | (26,571) |
| Net charge/(reversal) for the year (Note 9) | (136,287) | 129,552 |
| At 31 December | 108,102 | 244,389 |
| **Net financial investment** | **19,789,805** | **32,473,176** |

**15. Financial investments (cont'd.)**

**Impairment allowance for financial investment (cont'd.)**

| Reverse repurchase agreements | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| **Gross carrying amount** | | |
| At 1 January | 6,767,166 | 4,387,457 |
| Purchase/Addition | 7,920,153 | 6,673,730 |
| Assets derecognised or repaid | (8,345,738) | (4,387,457) |
| Foreign exchange adjustments | – | 93,436 |
| At 31 December | 6,341,581 | 6,767,166 |
| | | |
| **ECL allowance** | | |
| At 1 January | 2,412 | 7,629 |
| New assets originated or purchased | 7,920 | 2,412 |
| Payments and assets derecognised | (2,412) | (7,629) |
| Net charge/(reversal) for the year (Note 9) | 5,508 | (5,217) |
| At 31 December | 7,920 | 2,412 |
| | | |
| **Net financial instrument** | **6,333,661** | **6,764,754** |

**16. Derivative financial instruments**

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

| | Notional amount MNT'000 | Fair value Assets MNT'000 | Liabilities MNT'000 |
|---|---|---|---|
| **At 31 December 2023** | | | |
| Cross-currency interest rate swaps with BoM (a) | 78,445,870 | 373,312 | (1,658,530) |
| Forwards (b) | 7,185,695 | 350,631 | – |
| | **85,631,565** | **723,943** | **(1,658,530)** |
| | | | |
| **At 31 December 2022** | | | |
| Cross-currency interest rate swaps with BoM (a) | 13,778,400 | 433,677 | (42,448) |
| Forwards (b) | 1,755,161 | – | (19,670) |
| | **15,533,561** | **433,677** | **(62,118)** |

a) The Bank enters into cross-currency interest rate swap agreements with BoM. At initiation, the Bank has paid USD funds to BoM and received MNT funds at the spot rate. During the term of the agreement with BoM, the Bank receives interest on USD funds at SOFR plus certain margin and pays interest on MNT funds at the central bank repo rate. At the end of the term of agreements, the parties shall exchange the principal payments at the exchange rate of the initial transaction.

b) In the April 2023, the Bank made forward currency exchange agreement with Net Capital NBFI with a one-year term. Under the agreement, the Bank sold USD funds at a forward rate. As of 31 December 2022, the Bank held forward currency exchange agreements with Net Capital NBFI.

**17. Loans and advances to customers**

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| Business loan | 183,640,407 | 132,784,117 |
| Mortgage loan | 18,579,551 | 17,065,686 |
| Consumer loan | 98,902,844 | 53,441,097 |
| | 301,122,802 | 203,290,900 |
| Allowance for impairment losses | (3,786,120) | (2,819,242) |
| Net loans and advances to customers at amortised cost | **297,336,682** | **200,471,658** |
| Loans and advances to customers at FVPL | 14,814,369 | 8,133,535 |
| Total loans and advances to customers | **312,151,051** | **208,605,193** |

**Transferred financial assets that are derecognised in their entirety**

*Sale of mortgage pools*

During the year (in February 2023) the Bank sold 100% of its rights of the cash flows arising on portfolios of fixed rate mortgage loans to MIK in exchange for RMBS. The Bank derecognized the loan portfolios and recognized the Senior RMBS and Junior RMBS received as financial assets (see Note 15). Bank's continuing involvement in the transferred assets is also to act as servicer of the transferred assets until its maturity, with a quarterly servicing fee of 2.5% of serviced amount. The total servicing fee recognised in 2023 amounts to MNT 72,333 thousand (2022: MNT 35,317 thousand) included within Fee and commission income. The Bank may become obligated to repurchase the derecognised financial assets in the unlikely event of liquidation of the special purpose companies. The undiscounted cash outflows that may be required to repurchase derecognised financial assets amounts to MNT 19,766 million as of 31 December 2023 (2022: MNT 19,286 million).

*Sale of business loan pools*

On 20 February 2021, the Government of Mongolia has approved a MNT 10 trillion "Economic recovery plan and citizen's health protection program". The program consisted of 5 components supporting SMEs, housing, strategically important projects, agricultural productions and access to education.

As part of sub-program in supporting SMEs, the Bank participated in securitisation transactions with wholly owned special purpose companies of SFC in selling SME loan pools. The Bank originated a total of MNT nil (2022: MNT 5,110 million) of SME loans with an interest rate of 10.5% p.a and maturity of 2-3 years, in return for which the Bank received ABS. As per the amendment made to the General repurchase agreement dated on 28 November 2022, the Bank is no longer be obliged to replace the non-performing loans to SFC and has transferred the control of the asset to SFC. The Bank did not retain all the risks and rewards related to the loans sold to SFC within these transactions. Therefore, the Bank derecognised the loan portfolio and recognized the Senior ABS and Junior ABS received as financial assets bearing an interest rate of 9.5% p.a with a maturity of up to 3 years (see Notes 15).

Bank's continuing involvement in the transferred assets also is to act as servicer of the transferred assets until its maturity, with an quarterly servicing fee of 0.5% of serviced amount. The total servicing fee recognised in 2023 amounts to MNT 18,173 thousand (2022: MNT 55,319 thousand) included within Fee and commission income. The Bank may become obligated to repurchase the derecognised financial assets in the unlikely event of liquidation of the special purpose companies. The undiscounted cash outflows that may be required to repurchase derecognised financial assets amounts to MNT 100 million as of 31 December 2023 (2022: 3,340 million).

**Loans and advances to customers at FVPL**

The Bank holds mortgage portfolio of loans and advances to customers to be sold to MIK amounting to MNT 14,206,261 thousand (2022: MNT 3,948,751 thousand) and business loan pools to be sold to SFC amounting to MNT 608,108 thousand (2022: MNT 4,184,784 thousand).

**Impairment allowance for loans and advances to customers**

The tables below show the credit quality and the maximum exposure to credit risk including ECL allowance based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 30.

### 17. Loans and advances to customers (cont'd.)

**Impairment allowance for loans and advances to customers (cont'd.)**

| | Business MNT'000 | Mortgage MNT'000 | Consumer MNT'000 | Total MNT'000 |
|---|---|---|---|---|
| **31 December 2023** | | | | |
| Gross carrying amount as at 1 January 2023 | 132,784,117 | 17,065,686 | 53,441,097 | 203,290,900 |
| New assets originated or purchased | 108,057,808 | 4,893,222 | 90,991,274 | 203,942,304 |
| Assets derecognised or repaid | (57,201,518) | (3,379,357) | (45,529,527) | (106,110,402) |
| At 31 December 2023 | **183,640,407** | **18,579,551** | **98,902,844** | **301,122,802** |
| | | | | |
| ECL allowance as at 1 January 2023 | 1,623,148 | 268,701 | 927,393 | 2,819,242 |
| New assets originated or purchased | 1,169,409 | 28,093 | 604,332 | 1,801,834 |
| Assets derecognised or repaid | (1,060,602) | (193,101) | (380,988) | (1,634,691) |
| Impact on ECL on transfer between stages | 432,590 | 127,130 | 240,015 | 799,735 |
| Net charge(reversal) for the year (Note 9) | 541,397 | (37,878) | 463,359 | 966,878 |
| At 31 December 2023 | **2,164,545** | **230,823** | **1,390,752** | **3,786,120** |
| | | | | |
| **31 December 2022** | | | | |
| Gross carrying amount as at 1 January 2022 | 104,681,839 | 12,318,228 | 23,130,141 | 140,130,208 |
| New assets originated or purchased | 98,255,878 | 8,438,893 | 48,418,909 | 155,113,680 |
| Assets derecognised or repaid | (70,153,600) | (3,691,435) | (18,107,953) | (91,952,988) |
| At 31 December 2022 | **132,784,117** | **17,065,686** | **53,441,097** | **203,290,900** |
| | | | | |
| ECL allowance as at 1 January 2022 | 951,386 | 595,471 | 946,455 | 2,493,312 |
| New assets originated or purchased | 403,486 | 38,042 | 575,246 | 1,016,774 |
| Assets derecognised or repaid | (202,106) | (120,644) | (552,641) | (875,391) |
| Impact on ECL on transfer between stages | 470,382 | (244,168) | (41,667) | 184,547 |
| Net charge/(reversal) for the year (Note 9) | 671,762 | (326,770) | (19,062) | 325,930 |
| At 31 December 2022 | **1,623,148** | **268,701** | **927,393** | **2,819,242** |

| **Business loan** | Stage 1 MNT'000 | Stage 2 MNT'000 | Stage 3 MNT'000 | Total MNT'000 |
|---|---|---|---|---|
| Credit quality of gross carrying amounts | | | | |
| At 31 December 2023 | | | | |
| High grade | 122,209,368 | – | – | 122,209,368 |
| Standard | 30,400,740 | – | – | 30,400,740 |
| Sub-standard | – | 4,107,012 | 1,015,643 | 5,122,655 |
| Special mention | – | 10,279,058 | 7,961,022 | 18,240,080 |
| Credit impaired | – | – | 7,667,564 | 7,667,564 |
| | **152,610,108** | **14,386,070** | **16,644,229** | **183,640,407** |

**17. Loans and advances to customers (cont'd.)**

**Impairment allowance for loans and advances to customers (cont'd.)**

| **Business loan** | **Stage 1 MNT'000** | **Stage 2 MNT'000** | **Stage 3 MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| Credit quality of gross carrying amounts | | | | |
| At 31 December 2022 | | | | |
| High grade | 108,223,663 | – | – | 108,223,663 |
| Standard | 13,835,159 | – | – | 13,835,159 |
| Sub-standard | – | 3,616,128 | 1,647,768 | 5,263,896 |
| Special mention | – | – | 2,297,855 | 2,297,855 |
| Credit impaired | – | – | 3,163,544 | 3,163,544 |
| | **122,058,822** | **3,616,128** | **7,109,167** | **132,784,117** |

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for business loans is as follows:

| **Business loan** | **Stage 1 MNT'000** | **Stage 2 MNT'000** | **Stage 3 MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| 1 January 2023 | 122,058,822 | 3,616,128 | 7,109,167 | 132,784,117 |
| New assets originated or purchased | 108,057,808 | – | – | 108,057,808 |
| Assets derecognised or repaid | (55,668,183) | (243,468) | (1,237,691) | (57,149,342) |
| Transfer to Stage 1 | 572,352 | (105,009) | (467,343) | – |
| Transfer to Stage 2 | (11,799,077) | 11,932,870 | (185,969) | (52,176) |
| Transfer to Stage 3 | (10,611,614) | (814,451) | 11,426,065 | – |
| At 31 December 2023 | **152,610,108** | **14,386,070** | **16,644,229** | **183,640,407** |
| | | | | |
| **ECL allowance as at 1 January 2023** | 233,334 | 139,259 | 1,250,555 | 1,623,148 |
| New assets originated or purchased | 1,169,409 | – | – | 1,169,409 |
| Assets derecognised or repaid | (19,897) | (12,099) | (1,028,606) | (1,060,602) |
| Transfer to Stage 1 | 432 | (65) | (367) | – |
| Transfer to Stage 2 | (92,860) | 94,544 | (1,684) | – |
| Transfer to Stage 3 | (458,691) | (107,865) | 566,556 | – |
| Impact on ECL on transfer between stages and changes in input | (408,452) | 410,933 | 430,109 | 432,590 |
| Net charge/(reversal) for the year | 189,941 | 385,448 | (33,992) | 541,397 |
| **At 31 December 2023** | **423,275** | **524,707** | **1,216,563** | **2,164,545** |

### 17. Loans and advances to customers (cont'd.)

### Impairment allowance for loans and advances to customers (cont'd.)

| **Business loan** | **Stage 1 MNT'000** | **Stage 2 MNT'000** | **Stage 3 MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| 1 January 2022 | 95,232,749 | 6,001,404 | 3,447,686 | 104,681,839 |
| New assets originated or purchased | 98,255,878 | – | – | 98,255,878 |
| Assets derecognised or repaid | (65,570,977) | (3,591,568) | (991,055) | (70,153,600) |
| Transfer to Stage 1 | 1,066,418 | (950,242) | (116,176) | – |
| Transfer to Stage 2 | (3,095,177) | 3,146,798 | (51,621) | – |
| Transfer to Stage 3 | (3,830,069) | (990,264) | 4,820,333 | – |
| At 31 December 2022 | **122,058,822** | **3,616,128** | **7,109,167** | **132,784,117** |
| | | | | |
| **ECL allowance as at 1 January 2022** | 156,090 | 6,529 | 788,767 | 951,386 |
| New assets originated or purchased | 403,486 | – | – | 403,486 |
| Assets derecognised or repaid | (74,522) | (1,633) | (125,951) | (202,106) |
| Transfer to Stage 1 | 576 | (425) | (151) | – |
| Transfer to Stage 2 | (15,634) | 16,082 | (448) | – |
| Transfer to Stage 3 | (135,576) | (44,631) | 180,207 | – |
| Impact on ECL on transfer between stages and changes in input | (101,086) | 163,337 | 408,131 | 470,382 |
| Net charge for the year | 77,244 | 132,730 | 461,788 | 671,762 |
| **At 31 December 2022** | **233,334** | **139,259** | **1,250,555** | **1,623,148** |

| **Mortgage loan** | **Stage 1 MNT'000** | **Stage 2 MNT'000** | **Stage 3 MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| Credit quality of gross carrying amounts | | | | |
| **At 31 December 2023** | | | | |
| High grade | 12,678,164 | – | – | 12,678,164 |
| Standard | 2,414,540 | – | – | 2,414,540 |
| Sub-standard | – | 539,673 | – | 539,673 |
| Special mention | – | 2,614,825 | – | 2,614,825 |
| Credit impaired | – | – | 332,349 | 332,349 |
| | **15,092,704** | **3,154,498** | **332,349** | **18,579,551** |
| | | | | |
| **At 31 December 2022** | | | | |
| High grade | 14,940,315 | – | – | 14,940,315 |
| Standard | 994,231 | – | – | 994,231 |
| Sub-standard | – | 522,757 | – | 522,757 |
| Special mention | – | – | 154,472 | 154,472 |
| Credit impaired | – | – | 453,911 | 453,911 |
| | **15,934,546** | **522,757** | **608,383** | **17,065,686** |

**17. Loans and advances to customers (cont'd.)**

**Impairment allowance for loans and advances to customers (cont'd.)**

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for mortgage loans is as follows:

| | **Stage 1 MNT'000** | **Stage 2 MNT'000** | **Stage 3 MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| 1 January 2023 | 15,934,546 | 522,757 | 608,383 | 17,065,686 |
| New assets originated or purchased | 4,893,222 | – | – | 4,893,222 |
| Assets derecognised or repaid | (2,907,739) | (36,196) | (435,422) | (3,379,357) |
| Transfer to Stage 1 | 471,169 | (346,110) | (125,059) | – |
| Transfer to Stage 2 | (3,165,938) | 3,165,938 | – | – |
| Transfer to Stage 3 | (132,556) | (151,891) | 284,447 | – |
| At 31 December 2023 | **15,092,704** | **3,154,498** | **332,349** | **18,579,551** |
| | | | | |
| **ECL allowance as at 1 January 2023** | 70,033 | 21,602 | 177,066 | 268,701 |
| New assets originated or purchased | 28,093 | – | – | 28,093 |
| Assets derecognised or repaid | (19,511) | – | (173,590) | (193,101) |
| Transfer to Stage 1 | 201 | (151) | (50) | – |
| Transfer to Stage 2 | (62,787) | 62,787 | – | – |
| Transfer to Stage 3 | (9,392) | (30,206) | 39,598 | – |
| Impact on ECL on transfer between stages and changes in inputs | 17,931 | 113,631 | (4,432) | 127,130 |
| Net charge/(reversal) for the year | (45,465) | 146,061 | (138,474) | (37,878) |
| At 31 December 2023 | **24,568** | **167,663** | **38,592** | **230,823** |
| | | | | |
| **Gross carrying amount** | | | | |
| 1 January 2022 | 9,426,409 | 2,202,814 | 689,005 | 12,318,228 |
| New assets originated or purchased | 8,438,893 | – | – | 8,438,893 |
| Assets derecognised or repaid | (2,894,646) | (542,828) | (253,961) | (3,691,435) |
| Transfer to Stage 1 | 1,549,711 | (1,515,738) | (33,973) | – |
| Transfer to Stage 2 | (522,757) | 522,757 | – | – |
| Transfer to Stage 3 | (63,064) | (144,248) | 207,312 | – |
| At 31 December 2022 | **15,934,546** | **522,757** | **608,383** | **17,065,686** |
| | | | | |
| **ECL allowance as at 1 January 2022** | 120,554 | 270,158 | 204,759 | 595,471 |
| New assets originated or purchased | 38,042 | – | – | 38,042 |
| Assets derecognised or repaid | (84,639) | (648) | (35,357) | (120,644) |
| Transfer to Stage 1 | 1,994 | (1,965) | (29) | – |
| Transfer to Stage 2 | (9,642) | 9,642 | – | – |
| Transfer to Stage 3 | (627) | (4,384) | 5,011 | – |
| Impact on ECL on transfer between stages and changes in inputs | 4,351 | (251,201) | 2,682 | (244,168) |
| Net charge/(reversal) for the year | (50,521) | (248,556) | (27,693) | (326,770) |
| At 31 December 2022 | **70,033** | **21,602** | **177,066** | **268,701** |

**17. Loans and advances to customers (cont'd.)**

**Impairment allowance for loans and advances to customers (cont'd.)**

| **Consumer loan** | **Stage 1 MNT'000** | **Stage 2 MNT'000** | **Stage 3 MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| Credit quality of gross carrying amounts | | | | |
| At 31 December 2023 | | | | |
| High grade | 93,306,343 | – | – | 93,306,343 |
| Standard | 2,677,090 | – | – | 2,677,090 |
| Sub-standard | – | 545,987 | – | 545,987 |
| Special mention | – | 439,161 | – | 439,161 |
| Credit impaired | – | – | 1,934,263 | 1,934,263 |
| | **95,983,433** | **985,148** | **1,934,263** | **98,902,844** |
| | | | | |
| Credit quality of gross carrying amounts | | | | |
| At 31 December 2022 | | | | |
| High grade | 49,868,398 | – | – | 49,868,398 |
| Standard | 1,353,083 | – | – | 1,353,083 |
| Sub-standard | – | 353,027 | 109,473 | 462,500 |
| Special mention | – | – | 522,977 | 522,977 |
| Credit impaired | – | – | 1,234,139 | 1,234,139 |
| | **51,221,481** | **353,027** | **1,866,589** | **53,441,097** |

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for consumer loans is as follows:

| **Consumer loan** | **Stage 1 MNT'000** | **Stage 2 MNT'000** | **Stage 3 MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| 1 January 2023 | 51,221,481 | 353,027 | 1,866,589 | 53,441,097 |
| New assets originated or purchased | 90,991,274 | | | 90,991,274 |
| Assets derecognised or repaid | (44,338,523) | (158,157) | (1,032,847) | (45,529,527) |
| Transfer to Stage 1 | 63,887 | (39,289) | (24,598) | – |
| Transfer to Stage 2 | (897,818) | 958,937 | (61,119) | – |
| Transfer to Stage 3 | (1,056,868) | (129,370) | 1,186,238 | – |
| At 31 December 2023 | **95,983,433** | **985,148** | **1,934,263** | **98,902,844** |
| | | | | |
| **ECL allowance as at 1 January 2023** | 461,572 | 128,596 | 337,225 | 927,393 |
| New assets originated or purchased | 604,332 | – | – | 604,332 |
| Assets derecognised or repaid | (220,502) | (3,141) | (157,345) | (380,988) |
| Transfer to Stage 1 | 236 | (231) | (5) | – |
| Transfer to Stage 2 | (27,547) | 34,024 | (6,477) | – |
| Transfer to Stage 3 | (297,205) | (26,051) | 323,256 | – |
| Impact on ECL on transfer between stages and changes in inputs | (8,685) | 41,710 | 206,990 | 240,015 |
| Net charge for the year | 50,629 | 46,311 | 366,419 | 463,359 |
| At 31 December 2023 | **512,201** | **174,907** | **703,644** | **1,390,752** |

### 17. Loans and advances to customers (cont'd.)

### Impairment allowance for loans and advances to customers (cont'd.)

| **Consumer loan** | **Stage 1 MNT'000** | **Stage 2 MNT'000** | **Stage 3 MNT'000** | **Total MNT'000** |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| 1 January 2022 | 21,221,422 | 662,418 | 1,246,301 | 23,130,141 |
| New assets originated or purchased | 48,418,909 | – | – | 48,418,909 |
| Assets derecognised or repaid | (16,570,288) | (504,008) | (1,033,657) | (18,107,953) |
| Transfer to Stage 1 | 149,211 | (75,002) | (74,209) | – |
| Transfer to Stage 2 | (338,971) | 347,667 | (8,696) | – |
| Transfer to Stage 3 | (1,658,802) | (78,048) | 1,736,850 | – |
| At 31 December 2022 | **51,221,481** | **353,027** | **1,866,589** | **53,441,097** |
| | | | | |
| **ECL allowance as at 1 January 2022** | 503,701 | 90,944 | 351,810 | 946,455 |
| New assets originated or purchased | 575,246 | – | – | 575,246 |
| Assets derecognised or repaid | (238,412) | (48,249) | (265,980) | (552,641) |
| Transfer to Stage 1 | 2,275 | (2,186) | (89) | – |
| Transfer to Stage 2 | (14,041) | 14,115 | (74) | – |
| Transfer to Stage 3 | (190,780) | (12,809) | 203,589 | – |
| Impact on ECL on transfer between stages and changes in inputs | (176,417) | 86,781 | 47,969 | (41,667) |
| Net charge/(reversal) for the year | (42,129) | 37,652 | (14,585) | (19,062) |
| At 31 December 2022 | **461,572** | **128,596** | **337,225** | **927,393** |

### 18. Other assets

| **Other financial asset** | **2023 MNT'000** | **2022 MNT'000** |
|---|---|---|
| Interest receivable on cross-currency swap | 992,361 | – |
| Receivable on cash and settlement services | 170,534 | 172,230 |
| Receivable from entities | 3,911,698 | 751,497 |
| Other financial assets | 1,372,760 | 1,825,000 |
| Less: Allowance for impairment | (9,610) | (157,609) |
| | **6,437,743** | **2,591,118** |
| **Other non-financial asset** | | |
| Prepaid expenses | 5,865,830 | 2,111,506 |
| Supply materials | 790,739 | 828,398 |
| Prepayment made for property and equipment and intangible assets | 2,390,484 | 761,298 |
| Foreclosed properties | 2,362,878 | 4,850,731 |
| | **11,409,931** | **8,551,933** |
| | | |
| **Total other assets** | **17,847,674** | **11,143,051** |

A reconciliation of the allowance for impairment losses is as follows:

| | **2023 MNT'000** | **2022 MNT'000** |
|---|---|---|
| **Impairment allowance on other loan receivables** | | |
| At 1 January | 157,609 | 174,089 |
| Charge for the year | – | 9,520 |
| Reversal | (147,999) | (26,000) |
| Net charge/(reversal) for the year (Note 9) | (147,999) | (16,480) |
| **At 31 December** | **9,610** | **157,609** |

### 18. Other assets (cont'd.)

The tables below show the credit quality and the maximum exposure to credit risk of other receivables based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are set out in Note 30.

| | Stage 1<br>MNT'000 | Stage 2<br>MNT'000 | Stage 3<br>MNT'000 | Total<br>MNT'000 |
|---|---|---|---|---|
| **At 31 December 2023** | | | | |
| High grade | 6,444,593 | – | – | 6,444,593 |
| Credit impaired | – | – | 2,760 | 2,760 |
| Total | 6,444,593 | – | 2,760 | 6,447,353 |
| | | | | |
| **At 31 December 2022** | | | | |
| High grade | 2,598,114 | – | – | 2,598,114 |
| Sub-standard | – | 2,524 | – | 2,524 |
| Credit impaired | – | – | 148,089 | 148,089 |
| Total | 2,598,114 | 2,524 | 148,089 | 2,748,727 |

| **Foreclosed properties** | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| At 1 January | 4,850,731 | 50,000 |
| Addition | 26,714,132 | 5,344,694 |
| Transfer to assets held for sale (Note 19) | (29,201,985) | (543,963) |
| At 31 December | **2,362,878** | **4,850,731** |

### 19. Assets held for sale

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| At 1 January | 1,468,263 | 1,034,300 |
| Transfer from foreclosed properties (Note 18) | 29,201,985 | 543,963 |
| Disposal | (4,846,319) | (110,000) |
| At 31 December | **25,823,929** | **1,468,263** |

The Management assessed that those buildings and real estates are available for immediate sale and can be sold to the buyer in current condition. The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification. Potential buyers have been identified and negotiations as at reporting date are at an advanced stage. In February 2024, assets held for sale amounting to MNT 1,809,000 thousand was sold to external parties.

**20. Property and equipment**

| | Computers and others MNT'000 | Office equipment and vehicles MNT'000 | Total MNT'000 |
|---|---|---|---|
| **At 31 December 2023** | | | |
| **At cost** | | | |
| At 1 January 2023 | 4,143,738 | 2,849,079 | 6,992,817 |
| Additions | 567,235 | 592,458 | 1,159,693 |
| Disposal | – | (71,311) | (71,311) |
| Write-offs (Note10) | (46,017) | (7,209) | (53,226) |
| At 31 December 2023 | **4,664,956** | **3,363,017** | **8,027,973** |
| **Accumulated depreciation** | | | |
| At 1 January 2023 | 2,250,933 | 544,341 | 2,795,274 |
| Charge for the year (Note 10) | 791,806 | 190,944 | 982,750 |
| Disposal | – | (26,267) | (26,267) |
| Write-off (Note 10) | (37,521) | (5,404) | (42,925) |
| At 31 December 2023 | **3,005,218** | **703,614** | **3,708,832** |
| **Net carrying amount** | **1,659,738** | **2,659,403** | **4,319,141** |
| **At 31 December 2022** | | | |
| **At cost** | | | |
| At 1 January 2022 | 3,012,169 | 1,797,355 | 4,809,524 |
| Additions | 1,175,159 | 1,148,756 | 2,323,915 |
| Disposal | (35,256) | (78,898) | (114,154) |
| Write-offs (Note 10) | (8,334) | (18,134) | (26,468) |
| At 31 December 2022 | **4,143,738** | **2,849,079** | **6,992,817** |
| **Accumulated depreciation** | | | |
| At 1 January 2022 | 1,544,316 | 372,090 | 1,916,406 |
| Charge for the year (Note 10) | 730,789 | 180,243 | 911,032 |
| Disposal | (17,022) | (2,041) | (19,063) |
| Write-off (Note 10) | (7,150) | (5,951) | (13,101) |
| At 31 December 2022 | **2,250,933** | **544,341** | **2,795,274** |
| **Net carrying amount** | **1,892,805** | **2,304,738** | **4,197,543** |

**21. Right-of-use assets and lease liabilities**

The Bank has lease contracts for branch office spaces used in its operations. These leases on average have lease term of five years. The Bank’s obligations under its leases are secured by the lessor’s title to the leased assets. The Bank also has certain leases of server spaces, storeroom and logo board with lease terms of 12 months or less and leases with low value.

### 21. Right-of-use assets and lease liabilities (cont'd.)

The Bank applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. Set out below are the carrying amounts of right-of-use assets and lease liabilities and the reconciliation of movements during the year:

| | Right-of-use assets | |
|---|---|---|
| | **2023** | **2022** |
| | **MNT'000** | **MNT'000** |
| **As at 1 January** | 2,760,642 | 2,845,683 |
| Additions | 1,204,652 | 388,638 |
| Changes in consideration | 65,113 | 351,774 |
| Depreciation charge for the year (Note 10) | (943,730) | (825,453) |
| **As at 31 December** | **3,086,677** | **2,760,642** |

| | Lease liability | |
|---|---|---|
| | **2023** | **2022** |
| | **MNT'000** | **MNT'000** |
| **As at 1 January** | 2,955,777 | 2,994,860 |
| Additions | 1,130,195 | 200,130 |
| Changes in consideration | 65,113 | 351,774 |
| Accretion of interest (Note 5) | 524,714 | 437,697 |
| Lease payments | (1,266,241) | (1,028,684) |
| **As at 31 December** | **3,409,558** | **2,955,777** |

The following are the amounts recognised in profit or loss:

| | **2023** | **2022** |
|---|---|---|
| | **MNT'000** | **MNT'000** |
| Depreciation expense of right-of-use assets | 943,730 | 825,453 |
| Interest expense on lease liabilities | 524,714 | 437,697 |
| Expense relating to short-term and low value leases (included in administrative expenses) | 241,534 | 112,751 |
| **Total amount recognised in profit or loss** | **1,709,978** | **1,375,901** |

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has extension and/or termination options in a number of leases for office and branch spaces. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations.

### 22. Intangible assets

| | **2023** | **2022** |
|---|---|---|
| | **MNT'000** | **MNT'000** |
| **At cost** | | |
| At 1 January | 2,132,333 | 1,669,146 |
| Additions | 208,118 | 530,396 |
| Write-off | – | (67,209) |
| At 31 December | 2,340,451 | 2,132,333 |
| | | |
| **Accumulated amortisation** | | |
| At 1 January | 1,200,477 | 813,295 |
| Charge for the year (Note 10) | 181,395 | 454,391 |
| Write-off | – | (67,209) |
| At 31 December | 1,381,872 | 1,200,477 |
| | | |
| **Net carrying amount** | **958,579** | **931,856** |

### 23. Due to banks and other financial institutions

As of 31 December 2023, due to banks include term deposits with commercial banks. Time deposits have interest rates between 1% to 13% (2022: 1% to 14%) per annum and original maturity from 5 to 60 days (2022: 3 to 28 days). The bank collateralized deposit accounts at an amount of MNT 16,132,564 thousand (2022: nil) with maturity in January 2024.

### 24. Repurchase agreements

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| Bank of Mongolia (a) | 39,398,831 | 65,471,192 |
| Other bank and financial institutions (b) | 11,073,027 | – |
| | **50,471,858** | **65,471,192** |

a) As of 31 December 2023, total outstanding balance of long-term repurchase agreements amounted to MNT 39,398,831 thousand (2022: MNT 65,471,192 thousand), all obtained in relation to "Economic recovery plan and citizen's health protection program" upon which the Bank shall disburse the financing to eligible borrowers and could sell these loans to SFC in return for ABS (See Note 17). The agreements bear annual interests ranging between 6% to 10.5% and latest one shall mature on 27 December 2024.
The Bank collateralized BoM bills at an amount of MNT 35,300,000 thousand (2022: MNT 62,000,000 thousand) with maturity by 1 July 2024 (See Note 13.1), Senior ABS of MNT 1,765,000 thousand (2022: MNT 4,124,400 thousand) with maturity by 16 September 2030 and Senior RMBS of MNT 54,185,000 thousand (2022: nil) with maturity by 28 December 2051.

b) Repurchase agreements made with other bank and financial institutions are short term repurchase agreements due to mature on 2 January 2024 and 8 February 2024.

### 25. Due to customers

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| **Government deposits** | | |
| - Current accounts | 3,320,834 | 4,564,782 |
| - Time deposits | 10,629,420 | 953,382 |
| - Guarantee and LC funds | 1,693 | – |
| **Private sector deposits** | | |
| - Time deposits | 93,544,324 | 49,220,996 |
| - Current accounts | 46,365,181 | 40,455,711 |
| - Guarantee and LC funds | 588,955 | 1,214,007 |
| **Individual deposits** | | |
| - Time deposits | 193,282,774 | 105,757,927 |
| - Current accounts | 12,071,546 | 14,332,101 |
| - Demand deposits | 2,706,347 | 743,528 |
| | **362,511,074** | **217,242,434** |

### 26. Borrowed funds

| | Maturity date | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|---|
| **Borrowed funds from banks and financial institutions** | | | |
| EMF Microfinance Fund, AGmvK | 7/7/2024-<br>10/28/2024-<br>3/16/2025 | 23,577,507 | 14,057,079 |
| U.S. International Development Finance Corporation (DFC) | 8/15/2030-<br>8/15-2031 | 51,727,508 | – |
| /TJ/ Dutch Good Growth Fund DGGF | 12/15/2026 | 27,069,898 | – |
| China trade solutions | 1/27/2024 | 189,710 | 183,528 |
| Financing from MIK | 1/2/2024 | 11,528,628 | – |
| **Borrowed funds from government organizations** | | | |
| Mortgage Financing Programme by BoM | 12/15/2024 | 8,993,648 | 6,597,017 |
| Project loan from BoM | 12/25/2025 | 5,870,864 | 6,300,000 |
| | | **128,957,763** | **27,137,624** |

**26. Borrowed funds (cont'd.)**

All borrowed funds from government organisations are related to the Government of Mongolia. The Bank did not have any defaults on principal or interest payments with regard to all liabilities as at 31 December 2023.

Borrowed funds from banks and financial institutions encompass debt financing and trade finance received from financial institutions.

As at 31 December 2023, the Bank did not have any defaults on any principal and interest payments related to any of the borrowed funds.

For the borrowed funds mentioned above, a facility agreement takes place, in which certain financial covenants are to be complied with. The aforementioned financial covenants can be categorized as the following:

- capital related ratios (such as capital adequacy ratio);
- financial risks related ratios (such as liquidity ratio, open foreign currency position, and operating efficiency ratio);
- credit related ratios (such as NPL ratio, loan portfolio concentration, top ten loan exposure ratio, single exposure limit ratio, related party exposure ratio, loan loss reserve ratio and open asset ratio);
- other ratios (loan to deposit and borrowings ratio, return on assets etc.)

The borrowed funds become payable on demand in the event of default, that is in the case of non-compliance with the covenants. Henceforth, officers of the Financial Management Division, Risk Management Division, Credit Management Division and Treasury and Investment Banking Division, which directly report to the Vice President of Finance, Vice President of Risk Management, Vice President of Treasury and Investment Banking, continuously monitor the covenants. If certain covenants are anticipated or noted to be non-compliant, the information is effectively communicated to the lender and countermeasures to address the issues is taken by the management. The issue of covenant non-compliance is resolved through self-remedy based on mitigating actions or through acceptance of the breaches based either on request for temporary waiver or based on amendment to agreement.

As at 31 December 2023, the Bank is compliant with the covenants set in the agreement of the borrowed funds.

**27. Other liabilities**

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| **Other financial liabilities** | | |
| Interest payable on cross-currency swap | 1,272,220 | – |
| Delay on clearing settlement | 1,200,331 | 934,380 |
| Payable to entities | 1,689,787 | 169,250 |
| Provision for off-balance commitments (Note 29) | 16,165 | 31,192 |
| | 4,178,503 | 1,134,822 |
| **Other non-financial liabilities** | | |
| Tax payables other than income tax payables | 2,250,251 | 2,406,603 |
| Other non-financial liabilities | 1,230 | 791,674 |
| | 2,251,481 | 3,198,277 |
| **Total other liabilities** | **6,429,984** | **4,333,099** |

**28. Share capital and reserves**

**Share capital**

The Bank is a joint stock company listed on the MSE. The total authorized share capital of the Bank represents 1,250,000,000 ordinary shares (2022: 62,500,000) with nominal value of MNT 80 per share (2022: MNT 1,600 per share). The total number of issued shares as of 31 December 2023 was 1,250,000,000 ordinary shares (2022: 62,500,000). All issued ordinary shares are fully paid.

The Bank has one class of shares and each share carries one voting right. The distribution of dividend is subject to approval by the Board of Directors.

### 28. Share capital and reserves (cont'd.)

| | Ordinary shares | | Share premium | | Total share capital | |
|---|---|---|---|---|---|---|
| | 2023 MNT'000 | 2022 MNT'000 | 2023 MNT'000 | 2022 MNT'000 | 2023 MNT'000 | 2022 MNT'000 |
| **At 1 January** | 100,000,000 | 62,500,000 | (1,443,178) | 17,806,822 | 98,556,822 | 80,306,822 |
| Issuance of new shares through stock dividend | – | 18,250,000 | – | – | – | 18,250,000 |
| Transfer | – | 19,250,000 | – | (19,250,000) | – | – |
| **At 31 December** | 100,000,000 | 100,000,000 | (1,443,178) | (1,443,178) | 98,556,822 | 98,556,822 |

On 31 March 2022, BoM approved the request of the Bank to raise the nominal value of ordinary share from MNT 1,000 to MNT 1,600 and increase total value of ordinary shares from MNT 62.5 billion to MNT 100 billion. In doing so, the Bank declared stock dividend from the Bank's retained earnings amounting to MNT 18,250,000 thousand and transferred share premium of MNT 19,250,000 thousand to Ordinary shares.

On 8 February 2023, the Bank obtained approval from the Financial Regulatory Commission ("FRC") to split 62,500,000 ordinary shares with nominal value of MNT 1,600 into 1,250,000,000 shares with nominal value of MNT 80, with no impact on the total value of ordinary shares amounting to MNT 100 billion. The share split took effect on the MSE on 2 March 2023, with the official request No.8 of the State Inspectorate of FRC. The share split has been adjusted in the calculation of EPS for all periods presented (See Note 12).

In 2023, the Bank additionally declared and distributed cash dividend of MNT 6,562,500 thousand (2022: 1,205,000 thousand).

**Other reserves**

| | Fair value reserve without recycling MNT'000 | Fair value reserve with recycling MNT'000 | Regulatory reserve MNT'000 | Total MNT'000 |
|---|---|---|---|---|
| At 1 January 2023 | – | (2,646,573) | 1,067,419 | (1,579,154) |
| Net change in fair value (Note 15) | – | 3,702,457 | – | 3,702,457 |
| Provision for credit losses (Note 15) | – | 114,050 | – | 114,050 |
| Transfer to profit or loss upon disposal | – | (462,025) | – | (462,025) |
| Provision for regulatory reserve | – | – | 55,144 | 55,144 |
| At 31 December 2023 | – | 707,909 | 1,122,563 | 1,830,472 |
| | | | | |
| At 1 January 2022 | 500,000 | (118,512) | 547,509 | 928,997 |
| Net change in fair value (Note 15) | (500,000) | (5,103,045) | – | (5,603,045) |
| Provision for credit losses (Note 15) | – | 72,750 | – | 72,750 |
| Transfer to profit or loss upon disposal | – | 2,502,234 | – | 2,502,234 |
| Provision for regulatory reserve | – | – | 519,910 | 519,910 |
| At 31 December 2022 | – | (2,646,573) | 1,067,419 | (1,579,154) |

Regulatory reserve represents additional provision required under BoM provisioning guidelines that is in addition to IFRS requirements.

**29. Contingent liabilities and commitments**

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

| | 2023<br>MNT'000 | 2022<br>MNT'000 |
|---|---|---|
| **Credit related commitments** | | |
| Uncovered guarantees | 26,755,835 | 17,217,151 |
| Undrawn credit card | 3,605,711 | 5,224,506 |
| | **30,361,546** | **22,441,657** |
| | | |
| **Capital related commitments** | | |
| Property and equipment | 321,787 | – |

The table below shows the credit quality and the maximum exposure to credit risk including ECL based on the Bank's internal credit rating system, 12 month PD and year-end stage classification. The credit related commitments are rated as high grade for both 2023 and 2022.

**Impairment allowance for off balance commitments**

| | Guarantee<br>Stage 1<br>MNT'000 | Undrawn credit cards<br>Stage 1<br>MNT'000 | Total<br>MNT'000 |
|---|---|---|---|
| Gross carrying amount as at 1 January 2023 | 17,217,151 | 5,224,506 | 22,441,657 |
| New assets originated or purchased | 18,557,127 | 47,331,425 | 65,888,552 |
| Assets derecognised or repaid | (9,018,443) | (48,950,220) | (57,968,663) |
| At 31 December 2023 | 26,755,835 | 3,605,711 | 30,361,546 |
| | | | |
| ECL allowance as at 1 January 2023 | 2,312 | 28,880 | 31,192 |
| Charge/(reversal) for the year (Note 9) | 756 | (15,782) | (15,026) |
| At 31 December 2023 | 3,068 | 13,098 | 16,166 |
| | | | |
| Gross carrying amount as at 1 January 2022 | 14,449,918 | 99,355 | 14,549,273 |
| New assets originated or purchased | 9,326,823 | 20,580,549 | 29,907,372 |
| Assets derecognised or repaid | (6,559,590) | (15,455,398) | (22,014,988) |
| At 31 December 2022 | 17,217,151 | 5,224,506 | 22,441,657 |
| | | | |
| ECL allowance as at 1 January 2022 | 1,413 | 9,802 | 11,215 |
| Charge for the year (Note 9) | 899 | 19,078 | 19,977 |
| At 31 December 2022 | 2,312 | 28,880 | 31,192 |
| | | | |
| Credit quality of gross carrying amounts | | | |
| At 31 December 2023 | | | |
| High grade | 26,755,835 | 3,605,711 | 30,361,546 |
| | | | |
| At 31 December 2022 | | | |
| High grade | 17,217,151 | 5,224,506 | 22,441,657 |

**Contingent liabilities**

Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to tender and bid auction. They generally 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.

### 29. Contingent liabilities and commitments (cont'd.)

**Commitments**

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

**Undrawn credit card**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorized credit card. With respect to credit risk on commitments to extend credit, the Bank can be exposed to loss in an amount equal to the total unused credit 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 certain specific credit standards.

**Legal claims**

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss can be reasonably estimated, the Bank makes provision to account for any adverse effects on its financial statements.

As at 31 December 2023 and 31 December 2022, there were no major litigations.

### 30. Risk management

#### 30.1 Introduction

The main risks inherent in the Bank's operations are credit risk, liquidity risk, foreign exchange risk, operational risk, all of which are controlled by the Bank's Risk Management Department, an independent unit reporting directly to the Chief Executive Officer ("CEO"). The primary goal of risk management is to allocate capital to business segments commensurate with their risk/reward profiles and to maximize the Bank's risk-adjusted return on capital through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

The Bank has a clearly defined risk management framework which is not designed to eliminate the risk but to optimize the risk and return trade off. The risk management framework in place is to ensure that:

- Individuals who manage the risks clearly understand the requirement and measurement system;
- The Bank's risk exposure is within the limits established by the Board of Directors ("BOD");
- The risk measured is in line with the business strategy as approved by the BOD;
- The capital allocation is consistent with the risk of exposures; and
- The Bank's performance objectives are aligned with the risk appetite and tolerance.

**Risk management structure**

The BOD is responsible for the overall risk management approach and for approving the risk policy and credit policy which specify risk appetite and tolerances. However, there are separate independent bodies responsible for managing and monitoring risks.

**Risk Management Committee ("RMC")**

RMC is responsible for anticipating and managing new and ongoing financial risk across business departments and maintaining appropriate limits on risk taking, adequate systems and standards for measuring operational risk, credit risk and performance, comprehensive risk reporting and management review process.

**Board Audit Committee**

The Board Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for the integrity of the Bank's financial statements and disclosures, its compliance with legal and regulatory requirements, and internal controls and functions.

**Executive Management Committee**

The Executive Management Committee consists of all the executive management of the Bank and is chaired by the CEO and holds monthly meetings to discuss and decide the Bank's strategic issues and planning required for sustainable business management.

**30. Risk management (cont'd.)**

**30.1 Introduction (cont'd.)**

**Asset and Liability Committee ("ALCO")**

ALCO is responsible for providing centralized asset and liability management of the funding, liquidity, foreign currency exposure, maturity and interest rate risks to which the Bank is exposed. The purpose of ALCO is to set up the asset and liability structure of the Bank's balance sheet conducive for sustainable growth of the Bank, its profitability and liquidity through comprehensive management of the Bank's assets and liabilities and monitoring of the foreign currency, interest rate and other market risks. ALCO is chaired by the First Deputy CEO.

**Credit Committees**

The Bank's Credit Committee and Risk Management Department ("RMD") are responsible for managing the Bank's credit risk**.** The Bank's Credit Committees structure was established to manage the Bank's credit risk at various levels. The Bank has three types of credit committees for loan approval and monitoring:

1. Credit committee is responsible for the overall credit policies and procedures of the Bank and currently approves all credit exposures up to MNT 3 billion, with the authorization of the Chief Executive Officer. Also, the current procedure provides for credit exposures over MNT 3 billion to be submitted and approved by the Board of Directors.
2. Sub-Credit Committee approves credit exposures up to MNT 300 million, which are above approval limits of the rural Branches and credit units' Credit Committees.
3. Rural Branch Credit Committees approve loan proposals within their approved lending limits. Whereas, rural sub-branches don't have independent credit committees as credit decision-making process is centralized at the rural Branch Credit Committees' level.

**Internal Audit**

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

**Risk measurement and reporting system**

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.
The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the BOD, ALCO, RMC and Credit Committees, and the head of each business departments. The reports include the aggregate credit exposure, credit metric forecasts, VaR, liquidity ratios and risk profile changes.

Both ALCO and RMC receive a comprehensive risk report every quarter which is designed to provide all the necessary information to assess and conclude on the risk exposure of the Bank. Bi-weekly briefing is presented to the ALCO on the utilisation of market limits, analysis of VaR and liquidity, and any other risk developments.

**Risk mitigation**

As part of its overall risk management, the Bank uses VaR and basis sensitivity analysis to measure and analyze exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions. The Bank actively utilizes collaterals and personal guarantees to reduce its credit risks.

**Excessive 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. The BOD's Risk committee approves standards of limitations on sector concentration, individual creditor concentration, new product concentration and non-performing loan ratio. 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, Bank of Mongolia sets the standards of limitation as follows:

## 30. Risk management (cont'd.)

### 30.1 Introduction (cont'd.)

**Excessive Risk Concentration (cont'd.)**

- The maximum amount of the overall credit exposures issued and other credit-equivalent assets to an individual creditor and his/her related persons shall not exceed 20% of the equity of the Bank
- The maximum amount of the credit exposures issued and other credit-equivalent assets shall not exceed 5% of the capital for one related person to the Bank, and the aggregation of overall lending to the related persons shall not exceed 20% of the equity of the Bank.

The Bank's policy requires it to maintain sufficient liquidity corresponding to the level of deposit concentration.

### 30.2 Credit risk

Credit risk is the risk that the Bank could incur a loss because its customers, clients or counterparties fail to fulfill their contractual obligations. The Bank manages and controls credit risk by carefully screening credit applications, setting interest rate adjusted for risk level, and setting limits on credit exposures for individual counterparties, geographical area, and industry, and monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to identify potential losses and take early corrective actions.

The Bank regularly examines and improves credit policies and procedures to keep its lending activities in line with the best practice.

**Credit-related Commitments Risks**

The Bank makes available to its customers guarantees and standby letters of credit, which may require the Bank to make payments on their behalf. Such payments, if made, are collected from customers based on the terms of the particular letters of guarantee. These commitments expose the Bank to similar risks as loans; therefore the related risks are managed by the same procedures and policies.

**Impairment assessment**

***Definition of default, impaired and cure***

The Bank considers exposure to be in default for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments, or where the obligor is unlikely to repay the exposure fully without the Bank's realisation of collaterals. As part of the qualitative assessment of whether an exposure is credit-impaired, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- The debtor's exposure to the Bank is more than 90 days past due
- Restructuring caused by financial difficulty of the debtor on the following conditions:
  - Grace period on interest for over 90 days; and/or
  - Changes in the principal repayment schedule when cumulative instalments over the next 12 months are reduced by more than 50% from the original repayment schedule; and/or
  - Extension of maturity of the loan by more than 12 months compared to the original maturity; and/or
  - Revision of the principal or interest repayment schedule and/or the interest rate if the resulting present value of contractual cash flows under the modified contract is more than 10% lower than the present value of the original contractual cash flows.
- Bankruptcy proceedings initiated or the debtor declared bankrupt
- Occurrence of an event of impairment (default) on the reporting date that affected classification of other financial instruments of the debtor to Stage 3. At the same time, cross-default of loans of the same borrower which relate to different segments ("business loans to corporations" and "project loans to legal entities") is not taken into consideration.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

**30. Risk management (cont'd.)**

**30.2 Credit risk (cont'd.)**

**The Bank's internal rating and PD estimation process**

The Bank's Risk management division operates its internal rating models on consumer and mortgage loans. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. When practical, they build on information from international rating agencies, such as Moody's and/or Fitch ratings. these information sources are then used to determine the stage classification of the exposure.

The probability of default ("PD") for loans and advances to customers is derived from historical data and adjusted to incorporate forward looking information using available forecasts projected from relevant macroeconomic factors, when applicable. The PD is defined as conditional PD given that the account has not defaulted in prior periods taking into account full and partial prepayments, therefore the marginal PD's are considered to build the PD curve. Further, the Bank uses cohort analysis to estimate the multi period PD curves. The PD model used for business loans and advances to customers are based on rating matrices and are derived using international credit rating of the counterparties. The PD model used for financial assets other than loans and advances are based on rating matrices and are derived using international credit ratings of the counterparties, which intrinsically contains forward-looking information.

*Treasury, trading and interbank relationships*

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's Treasury department analyses publicly available external information such the ratings of international rating agencies, e.g. Moody's, and assigns the internal rating.

*Business loans*

For business loans, the credit risk assessment takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties.
- Any macro-economic or geopolitical information relevant to the portfolio.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Bank's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

*Consumer loan and Mortgage loan*

Consumer and mortgage loans include all types of consumer loans, credit cards, and mortgage loans. Risk rating of these loan products and some of the small business loans is assessed by a methodology to determine the probability of overdue. Herein: demographics, credit history of loan applicants, collateral, current income levels, changes in account income, outstanding liabilities and desired loan conditions.

*The bank's internal credit rating*

The credit quality of financial assets is managed by the Bank using internal credit ratings. It is the Bank's policy to maintain accurate and consistent risk grades across the credit portfolio. This facilitates the management of the applicable risks and the comparison of credit exposures across all lines of loan products. The grading system is supported by a variety of financial and statistical analytics, combined with processed portfolio and market information to provide the main inputs for the measurement of counterparty risk. All risk grades are tailored to the various loans exposures and are derived in accordance with the Bank's grading policy across all risk groupings reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The credit quality of financial assets other than loans and advances to customers are classified based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch rating.

**30. Risk management (cont'd.)**

**30.2 Credit risk (cont'd.)**

**The Bank's internal credit rating**

| Internal rating | Internal rating description | International rating (when applicable) |
|---|---|---|
| A | High grade | A- to AA+ rated |
| B | Standard | BBB- to BBB+ |
| C | Substandard | B- to BB+ |
| D | Special mention | Caa-C |
| E | Credit impaired | – |
| Not rated | Not rated | – |
| Individually impaired | Individually impaired | – |

***Exposure at default***

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 2.4.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortising product and bullet repayment loans, this is based on the contractual repayments owed by the borrower over 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For the revolving products, the exposure at the default is estimated using utilisation factor by applying to the total limit.

***Loss given default***

Loss given default (LGD) values are assessed annually by credit risk analysts from Risk management division. LGD represents the Bank's expectation of the extent of loss on defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposures at the time of default.

LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

LGD varies over time depending on the payments and the value of collateral. The key elements of the LGD coefficient are:

- Time dimension (dividing the EAD parameter into a secured and unsecured part) and
- Change in the value of collateral over time (in the case of such collateral as real estate, the value may remain unchanged)

In the absence of collateral for the financial instrument and sufficient historical data on default, the Bank applies expert judgment. Depending on the circumstances and completeness of the data at the reporting date, the Bank applies historical data approach or historical data from external sources to determine the LGD coefficient in stages.

***Significant increase in credit risk***

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank applies qualitative method for triggering a significant increase in credit risk for an asset, such as the account becoming forborne. In certain cases, the Bank may also consider that events explained in "Definition of default" are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECL on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

**30. Risk management (cont'd.)**

**30.2 Credit risk (cont'd.)**

***Grouping financial assets measured on a collective basis***

As explained in Note 2.4 *"Overview of the ECL principles"* dependant on the factors below, the Bank calculates the allowance for ECL either on collective or individual basis.

Asset classes where the Bank calculates ECL on an individual basis include top 40 or with outstanding balance of more than MNT 500 million Stage 3 borrowers by outstanding balance regardless of the loan portfolio, if availability of information is sufficient.

Asset classes where the Bank calculates ECL on a collective bases include all the remaining exposures not assessed individually. The bank groups these exposures into smaller portfolios, based on loan purpose and product:

- Business loans
- Mortgage loans
- Consumer loans

**Analysis of inputs to ECL model – forward looking information**

The Bank has incorporated the effect of future macroeconomic developments into the ECL by applying forward-looking information on the component of the ECL, the PD. A simple linear model was built to analyse the relationship between the observed default rates and macroeconomic variables. The data set includes quarterly time series of main macro indicators and probability of default per loan product. Macroeconomic variables are taken from the database of the National Statistical Office, and PD rates are derived from the bank's internal database or the historical default rate information from international rating agencies, such as Moody's. The Bank has national GPD, Inflation, Unemployment and Forex rate for Business loans, Inflation and Household consumption for mortgage loan, Household consumption, Export, Unemployment and Money supply for Consumer loans, which had the highest correlation with the default rate.

In terms of the methodology, correlation analysis was conducted initially to preselect the suitable macroeconomic variables. Then coefficients were estimated applying simple regression analysis. From the estimated coefficients and forecasts, adjustment factors to incorporate forward-looking information into PD were derived as the ratio between the predicted default rate and historical average default rate. These adjustment factors and adjusted PD rates are considered as Base scenario for ECL model, as it represents the best prediction of the future economic development. The good and bad scenarios are derived from historical adjustment factors based on the model predicted default rates and selected as certain quantiles of the adjustment factor distribution. Expected loss for different scenarios are calculated based on those estimated PD rates under the different scenarios, and the actual expected credit loss allowance is estimated as weights of 3 scenarios: 10% for Good, 30% for Bad, and 60% for Base scenario.

The following table sets out the results of adjustment factors under 3 different scenarios:

| | **Business loans** | **Mortgage loans** | **Consumer loans** |
|---|---|---|---|
| **31 December 2023** | | | |
| Bad case | 1.0301 | 1.0615 | 1.0284 |
| Base case | 1.0187 | 1.0163 | 1.0267 |
| Good case | 1.0073 | 0.9711 | 1.0250 |
| **31 December 2022** | | | |
| Bad case | 1.0207 | 1.1493 | 1.0136 |
| Base case | 1.0144 | 1.0892 | 1.0127 |
| Good case | 1.0081 | 1.0292 | 1.0119 |

**Overview of modified and forborne loans**

From a risk management point of view, once an asset is forborne or modified, the Bank's special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

The table below includes Stage 2 and 3 assets that were modified due to a credit issue and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank, if any.

The table below shows the gross carrying amount of restructured financial assets with corresponding ECL for the year ended 31 December 2023, as follow:

**30. Risk management (cont'd.)**

**30.2 Credit risk (cont'd.)**

**Overview of modified and forborne loans (cont'd.)**

| | **2023** |
|---|---|
| | **MNT'000** |
| *Restructured loans:* | |
| Gross carrying amount | 2,645,580 |
| Corresponding ECL | 16,896 |

**Analysis of risk concentration**

Disclosure of credit quality and maximum exposure for credit risk based on the Bank's internal credit rating system and year-end stage classification are disclosed in Notes 13, 14, 15 and 17 where relevant.

The table below show the analysis per industry sector of the Bank's loans and advances to customers (Note 17) in gross amounts, before taking into account the fair value of the loan collateral held or other credit enhancements.

| | **Gross maximum exposure** | | | |
|---|---|---|---|---|
| | **2023** | | **2022** | |
| | **MNT'000** | **%** | **MNT'000** | **%** |
| Construction | 48,724,558 | 15% | 40,200,742 | 19% |
| Real estate | 46,371,656 | 15% | 44,737,714 | 21% |
| Wholesale and retail trade | 37,421,156 | 12% | 33,978,508 | 16% |
| Electricity and fuel | 351,585 | 0% | 137,293 | 0% |
| Education | 1,190,955 | 0% | 490,233 | 0% |
| Financial and insurance services | 55,647,765 | 18% | 14,467,125 | 7% |
| Management and support | 323,112 | 0% | 526,474 | 0% |
| Other service | 17,118,980 | 5% | 7,566,785 | 4% |
| Transportation and warehousing services | 8,410,702 | 3% | 5,731,629 | 3% |
| Health | 1,472,643 | 0% | 1,183,837 | 1% |
| Manufacturing | 22,661,871 | 7% | 10,516,064 | 5% |
| Arts and games | 1,289,319 | 0% | 1,322,989 | 1% |
| Hotel, accommodation and catering services | 4,448,748 | 1% | 1,344,056 | 1% |
| Telecommunication | 679,347 | 0% | 1,013,970 | 0% |
| Agriculture | 918,323 | 0% | 1,393,898 | 1% |
| Consumer | 64,425,133 | 20% | 45,921,852 | 22% |
| Others | 4,481,318 | 1% | 891,266 | 0% |
| **Total** | **315,937,171** | **100%** | **211,424,435** | **100%** |

**Collateral and other credit enhancements**

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty and the type of loan granted. The main types of collateral obtained are as follows:

- corporate lending: charges over real-estate properties, inventories, plant and equipment, machineries and vehicles;
- small business lending: charges over real estate properties and inventories;
- consumer lending: charges over automobiles and assignment of income; and charges over real estate properties;
- residential mortgages: mortgages over residential properties.

The Bank regularly monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Bank does not occupy repossessed properties for business use.

Disclosure of credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year end stage classification are further disclosed in Notes 13, 14, 15 and 17. Where financial instruments are recorded at fair value the amounts shown in Note 15 represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The table below summarise the Bank' collateral for loans and advances to customers:

### 30. Risk management (cont'd.)

### 30.2 Credit risk (cont'd.)

**Collateral and other credit enhancements (cont'd.)**

| | Gross carrying amount MNT'000 | Collateral value MNT'000 |
|---|---|---|
| **31 December 2023** | | |
| Business loan | 184,248,515 | 570,717,121 |
| Consumer loan | 32,785,812 | 147,260,037 |
| Mortgage loan | 98,902,844 | 66,870,827 |
| | **315,937,171** | **784,847,985** |
| **31 December 2022** | | |
| Business loan | 136,964,414 | 530,265,456 |
| Consumer loan | 53,441,097 | 91,255,412 |
| Mortgage loan | 21,018,924 | 39,786,723 |
| | **211,424,435** | **661,307,591** |

### 30.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. The Bank always holds sufficient amount of liquid assets which is much higher than the level required by the BoM. In addition, the Bank complies with the reserve requirement of 6 - 18 percent of customer deposits based on average period of two weeks.

**Analysis of financial assets and financial liabilities by remaining contractual maturities**

The table below summarizes the maturity profile of the Bank's financial assets and liabilities at 31 December 2023 and 31 December 2022 based on contractual undiscounted repayment obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

| At 31 December 2023 | On demand MNT'000 | Less than 3 months MNT'000 | 3 to 6 months MNT'000 | 6 months to 1 year MNT'000 | 1 to 5 years MNT'000 | Over 5 years MNT'000 | Total MNT'000 |
|---|---|---|---|---|---|---|---|
| Cash and balances with BoM | 57,417,526 | 97,813,808 | – | – | – | – | 155,231,334 |
| Due from banks | 17,920,303 | 43,050,188 | – | – | – | – | 60,970,491 |
| Financial investments | – | 34,562,924 | 60,368,331 | 3,171,797 | 23,143,144 | 43,203,302 | 164,449,498 |
| Derivative financial instruments | – | – | 350,632 | 373,312 | – | – | 723,944 |
| Loans and advances to customers | 340,692 | 96,331,793 | 52,109,177 | 84,405,223 | 215,568,811 | 43,325,697 | 492,081,393 |
| Other assets | 1,372,760 | 5,064,983 | – | – | – | – | 6,437,743 |
| **Total financial assets** | **77,051,281** | **276,823,696** | **112,828,140** | **87,950,332** | **238,711,955** | **86,528,999** | **879,894,403** |
| | | | | | | | |
| Due to banks | – | 16,125,032 | – | – | – | – | 16,125,032 |
| Repurchase agreements | – | 20,677,270 | 9,607,787 | 19,045,976 | 4,495,183 | – | 53,826,216 |
| Due to customers | 65,056,800 | 192,625,525 | 62,933,017 | 47,703,610 | 10,195,253 | 368,921 | 378,883,126 |
| Derivative financial instruments | – | – | – | – | 1,658,530 | – | 1,658,530 |
| Borrowed funds | 11,528,628 | 16,603,908 | 16,593,840 | 27,561,752 | 67,980,641 | 24,732,259 | 165,001,028 |
| Other liabilities | 2,472,551 | 1,705,952 | – | – | – | – | 4,178,503 |
| Lease liability | – | 523,309 | 392,482 | 805,637 | 2,963,779 | – | 4,685,207 |
| **Total financial liabilities** | **79,057,979** | **248,260,996** | **89,527,126** | **95,116,975** | **87,293,386** | **25,101,180** | **624,357,642** |

## 30. Risk management (cont'd.)

### 30.3 Liquidity risk (cont'd.)

| At 31 December 2022 | On demand MNT'000 | Less than 3 months MNT'000 | 3 to 6 months MNT'000 | 6 months to 1 year MNT'000 | 1 to 5 years MNT'000 | Over 5 years MNT'000 | Total MNT'000 |
|---|---|---|---|---|---|---|---|
| Cash and balances with BoM | 35,347,220 | 92,680,284 | – | – | – | – | 128,027,504 |
| Due from banks | 7,734,687 | 43,519,476 | – | – | – | – | 51,254,163 |
| Financial investments | – | 10,714,069 | 10,425,754 | 7,200,848 | 34,317,264 | 26,712,894 | 89,370,829 |
| Derivative financial instruments | – | – | – | – | 433,677 | – | 433,677 |
| Loans and advances to customers | 446,408 | 51,817,638 | 34,572,279 | 58,016,792 | 150,448,993 | 35,099,184 | 330,401,294 |
| Other assets | 1,825,000 | 923,727 | – | – | – | – | 2,748,727 |
| **Total financial assets** | **45,353,315** | **199,655,194** | **44,998,033** | **65,217,640** | **185,199,934** | **61,812,078** | **602,236,194** |
| Due to banks | 43,361,601 | – | – | – | – | – | 43,361,601 |
| Repurchase agreements | – | 11,596,499 | 11,634,156 | 11,813,781 | 35,234,832 | – | 70,279,268 |
| Due to customers | 65,619,104 | 51,292,878 | 36,375,435 | 63,628,108 | 5,839,675 | – | 222,755,200 |
| Derivative financial instruments | – | 53,973 | 42,047 | 81,891 | 71,986 | – | 249,897 |
| Borrowed funds | – | 498,442 | 648,469 | 18,147,299 | 10,374,098 | – | 29,668,308 |
| Other liabilities | 934,380 | 200,442 | – | – | – | – | 1,134,822 |
| Lease liability | – | 359,891 | 270,736 | 541,472 | 2,533,440 | 123,776 | 3,829,315 |
| **Total financial liabilities** | **109,915,085** | **64,002,125** | **48,970,843** | **94,212,551** | **54,054,031** | **123,776** | **371,278,411** |

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earlier date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

| | On demand MNT'000 | Less than 3 months MNT'000 | 3 to 6 months MNT'000 | 6 months to 1 year MNT'000 | 1 to 5 years MNT'000 | Over 5 years MNT'000 | Total MNT'000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2023** | | | | | | | |
| Financial guarantees | 17,257,699 | 3,569,816 | – | – | 5,928,320 | – | 26,755,835 |
| Other undrawn commitments to lend | 504,991 | 400,000 | 900,720 | 1,500,000 | 300,000 | – | 3,605,711 |
| **Total commitments and guarantees** | **17,762,690** | **3,969,816** | **900,720** | **1,500,000** | **6,228,320** | **–** | **30,361,546** |
| **At 31 December 2022** | | | | | | | |
| Financial guarantees | 12,965,601 | 2,725,056 | 6,000 | 1,345,123 | 175,371 | – | 17,217,151 |
| Other undrawn commitments to lend | 606,487 | 520,100 | 1,135 | 181,063 | 3,915,721 | – | 5,224,506 |
| **Total commitments and guarantees** | **13,572,088** | **3,245,156** | **7,135** | **1,526,186** | **4,091,092** | **–** | **22,441,657** |

### 30.4 Market risk

The Bank takes exposure to market risk, which is the risk to incur losses of income and assets due to the market adverse movements in interest rate and foreign currency of on and off-balance sheet positions owned by the Bank. Market risk management shall be aimed at creating the most optimal balance sheet structure, which earns the highest net interest income.

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect bank's profitability, future cash flows or the fair values of financial instruments. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Bank's net interest income, while a long term impact is on the Bank's net worth since the economic value of the Bank's assets, liabilities and off-balance sheet exposures will be affected. Management has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained with the established limits.

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

| | | Sensitivity of net interest income | |
|---|---|---|---|
| | | **2023** | **2022** |
| **Currency** | **Change in basis points** | **MNT'000** | **MNT'000** |
| MNT | +/-100 | +/-146,984 | +/-162,533 |
| USD | +/-100 | +/-642,146 | +/-107,675 |
| Others | +/-100 | +/-2,290 | +/-550 |

### 30. Risk management (cont'd.)

### 30.4 Market risk (cont'd.)

### Currency risk

ALCO sets limits on the level of exposure by currencies, which are monitored on a frequent basis. The Bank manages its currency risk primarily through ensuring compliance with the prudential ratio for foreign currency open position established by the BoM and through assessing the impact of foreign currency exchange rate movements on the Bank's liquidity and profitability. Also the Bank uses limits, calculated using Value-at-Risk method, for foreign exchange risk management. ALCO approves stop loss limits for overall currency positions on a quarterly basis. Risk Management Department oversees that the currency exchange operations are managed within the approved limits.

### Objectives and limitations of the VaR Methodology

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. VaR limits have been established for all foreign currency open positions and exposures are reviewed daily against the limits by management. The estimated potential one-day losses on its foreign currency denominated financial instruments, as calculated in the VAR models are the following:

| | **Historical simulation** | |
|---|---|---|
| | **2023** | **2022** |
| | **MNT'000** | **MNT'000** |
| At 31 December | 559,135 | 99,378 |
| Average monthly | 30,580 | 4,961 |
| Highest | 419,064 | 85,409 |
| Lowest | 12,196 | 15,257 |

The table below summarizes the Bank's exposure to foreign exchange risk as at 31 December 2023 and 31 December 2022. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorized by currencies.

| | **MNT** | **USD** | **Others** | **Total** |
|---|---|---|---|---|
| **At December 2023** | **MNT'000** | **MNT'000** | **MNT'000** | **MNT'000** |
| **Financial assets** | | | | |
| Cash and balances with BOM | 119,729,550 | 34,579,730 | 641,839 | 154,951,119 |
| Due from other banks and financial institutions | 1,445 | 53,262,427 | 7,392,821 | 60,656,693 |
| Financial investments | 81,382,654 | 50,422,921 | – | 131,805,575 |
| Derivative financial instrument | 723,943 | – | – | 723,943 |
| Loans and advances to customers | 312,070,053 | 80,998 | – | 312,151,051 |
| Other financial assets | 1,992,736 | 4,408,379 | 36,628 | 6,437,743 |
| **Total** | **515,900,381** | **142,754,455** | **8,071,288** | **666,726,124** |
| | | | | |
| **Financial liabilities** | | | | |
| Due to banks and other financial institutions | 11,962,018 | – | 4,150,951 | 16,112,969 |
| Repurchase agreement | 40,814,536 | 9,657,322 | – | 50,471,858 |
| Due to customers | 241,332,549 | 117,857,527 | 3,320,998 | 362,511,074 |
| Derivative financial instrument | 1,658,530 | – | – | 1,658,530 |
| Borrowed funds | 26,393,139 | 102,564,624 | – | 128,957,763 |
| Lease liabilities | 3,409,558 | – | – | 3,409,558 |
| Other financial liabilities | 4,175,260 | 2,930 | 313 | 4,178,503 |
| **Total** | **329,745,590** | **230,082,403** | **7,472,262** | **567,300,255** |

### 30. Risk management (cont'd.)

### 30.4 Market risk (cont'd.)

| | MNT | USD | Others | Total |
|---|---|---|---|---|
| **At December 2022** | **MNT'000** | **MNT'000** | **MNT'000** | **MNT'000** |
| **Financial assets** | | | | |
| Cash and balances with BOM | 92,511,610 | 14,040,738 | 21,423,562 | 127,975,910 |
| Due from other banks and financial institutions | 20,016,544 | 26,504,345 | 4,721,024 | 51,241,913 |
| Financial investments | 30,819,687 | 38,805,776 | – | 69,625,463 |
| Derivative financial instrument | 433,677 | – | – | 433,677 |
| Loans and advances to customers | 206,805,391 | 1,799,802 | – | 208,605,193 |
| Other financial assets | 2,591,118 | – | – | 2,591,118 |
| **Total** | **353,178,027** | **81,150,661** | **26,144,586** | **460,473,274** |
| | | | | |
| **Financial liabilities** | | | | |
| Due to banks and other financial institutions | 23,277,265 | – | 20,070,639 | 43,347,904 |
| Repurchase agreement | 65,471,192 | – | – | 65,471,192 |
| Due to customers | 131,118,023 | 81,072,841 | 5,051,570 | 217,242,434 |
| Derivative financial instrument | 62,118 | – | – | 62,118 |
| Borrowed funds | 12,897,018 | 14,240,606 | – | 27,137,624 |
| Lease liabilities | 2,955,777 | – | – | 2,955,777 |
| Other financial liabilities | 1,134,822 | – | – | 1,134,822 |
| **Total** | **236,916,215** | **95,313,447** | **25,122,209** | **357,351,871** |

### Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The Bank uses the simplified approach to project the impact of varying levels of prepayment on its net interest income. If 20% of repayable financial instruments were prepaid at the beginning of the year, with all other variables held constant, the interest income for the year would be reduced by MNT 8,043 million (2022: MNT 5,871 million).

### Operational risk

The Bank defines operational risk as the risk of loss resulting from inadequate or ineffective internal processes, people or external events. Operational risk includes: internal fraud, external fraud, employment practices and workplace safety, product and service failure, damage to physical assets, business disruption and internal process failure risk. Operational risk excludes legal, compliance and information security risks as they are managed as separate risk categories. The risk management division directly inform operational risk report to the Management Committee and the BOD's Risk Committee on quarterly basis.

### Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The trading equity price risk exposure arises from equity securities classified as FVPL. A 10 per cent increase in the value of Bank's equities at FVPL at 31 December 2023 would have increased equity by MNT 180 million (2022: 194 million). An equivalent decrease would have resulted in an equivalent but opposite impact and would cause a potential impairment, which would reduce profit before tax by approximately MNT 180 million (2022: MNT 194 million). The non-trading equity price risk exposure arises from equity securities classified as FVOCI and is disclosed in Note 31.

### 31. Fair value disclosures

### Determination of fair value and fair value hierarchy

Fair value is the amount at which a financial assets and liabilities could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques.

The following table shows an analysis of financial assets and liabilities recorded at fair value by level of the fair value hierarchy.

### 31. Fair value disclosures (cont'd.)

**Determination of fair value and fair value hierarchy (cont'd.)**

| At 31 December 2023 | Level 1<br>MNT'000 | Level 2<br>MNT'000 | Level 3<br>MNT'000 | Total<br>MNT'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *Debt instruments measured at FVOCI* | | | | |
| Quoted Government bond | 17,548,711 | – | – | 17,548,711 |
| Quoted corporate bonds | 16,153,291 | – | – | 16,153,291 |
| Unquoted BoM bills | – | 58,157,492 | – | 58,157,492 |
| *Equity instruments measured at FVOCI:* | | | | |
| Unquoted equities | – | – | 2,800,000 | 2,800,000 |
| *Equity instruments measured at FVPL:* | | | | |
| Quoted equities | 1,799,819 | – | – | 1,799,819 |
| *Financial assets at FVPL:* | | | | |
| Loans and advances, at fair value | – | 14,814,369 | – | 14,814,369 |
| RMBS - senior and junior tranche, at fair value | – | – | 8,428,268 | 8,428,268 |
| ABS - junior tranche at fair value | – | – | 794,528 | 794,528 |
| Foreign exchange forward | – | 350,631 | – | 350,631 |
| **Total** | **35,501,821** | **73,322,492** | **12,022,796** | **120,847,109** |
| | | | | |
| **Financial liabilities** | | | | |
| *Financial liabilities at FVTPL* | | | | |
| Cross currency interest rate swap, net | – | 1,285,218 | – | 1,285,218 |
| | **–** | **1,285,218** | **–** | **1,285,218** |

| At 31 December 2022 | Level 1<br>MNT'000 | Level 2<br>MNT'000 | Level 3<br>MNT'000 | Total<br>MNT'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *Debt instruments measured at FVOCI* | | | | |
| Quoted Government bond | 5,149,809 | – | – | 5,149,809 |
| Quoted corporate bonds | 6,960,036 | – | – | 6,960,036 |
| Unquoted BoM bills | – | 2,669,627 | – | 2,669,627 |
| *Equity instruments measured at FVOCI:* | | | | |
| Unquoted equities | – | – | 2,800,000 | 2,800,000 |
| *Equity instruments measured at FVPL:* | | | | |
| Quoted equities | 1,942,564 | – | – | 1,942,564 |
| *Financial assets at FVPL:* | | | | |
| Loans and advances, at fair value | – | 8,133,535 | – | 8,133,535 |
| RMBS - senior and junior tranche, at fair value | – | – | 7,924,953 | 7,924,953 |
| ABS - junior tranche at fair value | – | – | 2,940,544 | 2,940,544 |
| CCIRS and forward contracts, net | – | 371,559 | – | 371,559 |
| **Total** | **14,052,409** | **11,174,721** | **13,665,497** | **38,892,627** |

### 31. Fair value disclosures (cont'd.)

**Determination of fair value and fair value hierarchy (cont'd.)**

**Transfers between level 1, 2 and 3**

There were no transfers between level 1, 2 and 3 of the fair value hierarchy for the assets and liabilities which are recorded at fair value.

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

| | Fair value | | | |
|---|---|---|---|---|
| | 2023 MNT'000 | 2022 MNT'000 | Valuation technique | Inputs |
| **Financial assets** | | | | |
| Unquoted BoM treasury bills | 58,157,492 | 2,669,627 | Income approach | Cash flow projection, MNT discount rate |
| Loans and advances, at fair value | 14,814,369 | 8,133,535 | Income approach | Cash flow projection based on repayment schedule, MNT discount rate |
| Derivative financial instruments, net | (934,587) | 371,559 | Income approach | Cash flow projection, MNT repo rate, BoM bill rate, Z-spread, SOFR, MNT and USD discount rate |

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2023.

### 31. Fair value disclosures (cont'd.)

### Transfers between level 1, 2 and 3 (cont'd.)

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

| | Fair value MNT'000 | Reasonable change | Sensitivity of the input to FV MNT'000 | Valuation technique | Significant unobservable inputs |
|---|---|---|---|---|---|
| **At 31 December 2023** | | | | | |
| RMBS | 8,428,268 | +100bps | +24,038 | Income approach | MNT discount rate |
| | | -100bps | -23,745 | | |
| ABS | 794,528 | +100bps | +28,535 | Income approach | MNT discount rate |
| | | -100bps | -27,115 | | |
| Unquoted equities | 2,800,000 | +100bps | +154,006 | Income approach | Cash flow projection, WACC |
| | | -100bps | -182,779 | | |
| **At 31 December 2022** | | | | | |
| RMBS | 7,924,953 | +100bps | +22,431 | Income approach | MNT discount rate |
| | | -100bps | -22,158 | | |
| ABS | 2,940,544 | +100bps | +49,167 | Income approach | MNT discount rate |
| | | -100bps | -47,890 | | |
| Unquoted equities | 2,800,000 | +100bps | +149,648 | Income approach | Cash flow projection, WACC |
| | | -100bps | -130,540 | | |

There were no changes in valuation techniques during the year ended 31 December 2023 and 31 December 2022.

Movements in fair value measurements within Level 3 during the year:

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| **Unquoted equity securities** | | |
| At 1 January | **2,800,000** | **3,300,000** |
| Fair value change | – | (500,000) |
| **At 31 December** | **2,800,000** | **2,800,000** |
| | | |
| **Residential mortgage-backed securities** | | |
| At 1 January | 7,924,953 | 5,826,990 |
| Addition | 2,242,700 | 9,302,000 |
| Sold | (2,444,053) | (7,918,090) |
| Accrued interest | 704,668 | 714,053 |
| **At 31 December** | **8,428,268** | **7,924,953** |
| | | |
| **Residential mortgage-backed securities** | | |
| At 1 January | 2,940,544 | 340,354 |
| Addition | – | 2,557,000 |
| Sold | (2,130,500) | – |
| Accrued interest | (15,516) | 43,190 |
| **At 31 December** | **794,528** | **2,940,544** |

**31. Fair value disclosures (cont'd.)**

**Transfers between level 1, 2 and 3 (cont'd.)**

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

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

**Assets for which fair value approximates carrying value**

For financial assets and financial liabilities that are liquid or have short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value. Based on fair value assessments performed by the management, the estimated fair values of due from banks of more than one year approximate their carrying amounts as shown in the statement of financial position. This is due principally to the fact that the current market rates offered for similar deposit products do not differ significantly from market rates at inception.

**Fixed rate financial instruments**

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

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments in the financial statements where there is a significant difference between the values which are categorised in Level 2.

| As at 31 December 2023 | Carrying amount MNT'000 | Fair value MNT'000 |
|---|---|---|
| **Financial assets at amortised cost** | | |
| Loans and advances to customers | 301,122,802 | 297,336,682 |
| Investment securities held to maturity | 19,897,907 | 19,789,805 |
| **Total** | 321,020,709 | 317,126,487 |
| **As at 31 December 2022** | | |
| **Financial assets at amortised cost** | | |
| Loans and advances to customers | 203,290,900 | 200,471,658 |
| Investment securities held to maturity | 39,484,731 | 39,237,930 |
| **Total** | 242,755,631 | 239,709,588 |

**32. Related party disclosures**

**Transactions with key management personnel of the Bank**

The aggregate remuneration of directors and members of the Board of Directors during the year, paid by the Bank, was as follows:

| | 2023 MNT'000 | 2022 MNT'000 |
|---|---|---|
| *Short-term benefits:* | | |
| Salaries and other allowances | 1,592,180 | 1,310,266 |
| Contribution to social and health fund | 166,830 | 155,703 |
| Bonus and other benefits | – | 42,500 |
| | **1,759,010** | **1,508,469** |

Key management personnel – Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors, Executive officers and their immediate relatives to be related parties.

**32. Related party disclosures (cont'd.)**

**Transactions with related parties (cont'd.)**

As at 31 December 2023 and 31 December 2022, balance due to/from the related parties were as follows:

| | Outstanding balances | | | |
|---|---|---|---|---|
| | **Deposit and current account MNT'000** | **Loan and advances MNT'000** | **Financial investments and other asset MNT'000** | **Undrawn credit card and guarantee MNT'000** |
| **At 31 December 2023** | | | | |
| Bodi Capital LLC | 10,061 | – | 1,211,590 | – |
| Bogd Capital Investment LLC | 15,992 | – | 158,410 | – |
| Bodi Insurance LLC | 47,580 | – | 1,381,660 | – |
| Bodi LLC | 44 | 112,053 | – | – |
| Bodi Tower LLC | 33,037 | 1,672,814 | 2,800,000 | 721 |
| Other related parties | 1,145,959 | 6,387,743 | 3,503,740 | 300,000 |
| Beneficial owner and its immediate family | 1,124,140 | 1,567,575 | – | 200,547 |
| Key management personnel | 2,121,277 | 3,295,692 | – | 50,944 |
| **Total** | **4,498,090** | **13,035,877** | **9,055,400** | **552,212** |
| **At 31 December 2022** | | | | |
| Bodi Capital LLC | 86 | – | – | – |
| Bogd Capital Investment LLC | 25 | – | – | – |
| Bodi Insurance LLC | 252,282 | – | – | 248,837 |
| Bodi LLC | 242 | 228,055 | – | – |
| Bodi Tower LLC | 91,790 | 1,028,215 | – | 915,721 |
| Other related parties | 1,833,681 | 4,577,643 | 7,705,744 | 100,000 |
| Beneficial owner and its immediate family | 804,624 | 1,276,372 | – | 287,437 |
| Key management personnel | 3,079,496 | 2,189,321 | – | 41,910 |
| **Total** | **6,062,226** | **9,299,606** | **7,705,744** | **1,593,905** |

| | Transactions | | | |
|---|---|---|---|---|
| | **Interest expense on deposit MNT'000** | **Interest income on loan and advances MNT'000** | **Services obtained MNT'000** | **Received dividend and other income MNT'000** |
| **At 31 December 2023** | | | | |
| Bogd Capital Investment LLC | – | – | 3,500 | – |
| Bodi Insurance LLC | 5,664 | 1,864 | 53,474 | – |
| Bodi LLC | – | 28,397 | – | – |
| Bodi Tower LLC | 1,995 | 295,189 | 763,898 | – |
| Other related companies | 150,500 | 1,955,166 | 2,302,112 | – |
| Beneficial owner and its immediate family | 12,529 | 145,737 | – | – |
| Key management personnel | 187,755 | 301,183 | – | – |
| **Total** | **358,443** | **2,727,536** | **3,122,984** | **–** |
| **At 31 December 2022** | | | | |
| Bodi Insurance LLC | – | – | 82,893 | 67,298 |
| Bodi LLC | – | 49,030 | 50,000 | – |
| Bodi Tower LLC | 475 | 247,211 | 615,518 | – |
| Other related companies | 104,579 | 746,835 | 607,783 | – |
| Beneficial owner and its immediate family | 11,256 | 247,424 | – | – |
| Key management personnel | 168,704 | 251,744 | – | – |
| **Total** | **285,014** | **1,542,244** | **1,356,194** | **67,298** |

## 32. Related party disclosures (cont'd.)

### Transactions with related parties (cont'd.)

### Terms and conditions of transactions with related parties

The above outstanding balances and transactions arose in the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances except for financial investments and loans and advances to related parties at the period-end are unsecured.

## 33. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled as at 31 December 2023. See Note 30 'Liquidity risk and funding management' for the Bank's contractual undiscounted repayment obligations.

| At 31 December 2023 | Less than 12 months MNT'000 | More than 12 months MNT'000 | Total MNT'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with BoM | 154,951,119 | – | 154,951,119 |
| Due from other banks and financial institutions | 60,656,693 | – | 60,656,693 |
| Financial investments | 90,732,285 | 41,073,290 | 131,805,575 |
| Derivative financial instruments | 723,943 | – | 723,943 |
| Loans and advances to customers | 175,979,738 | 136,171,313 | 312,151,051 |
| Other assets | 17,847,674 | – | 17,847,674 |
| Assets held for sale | 25,823,929 | – | 25,823,929 |
| Property and equipment | – | 4,319,141 | 4,319,141 |
| Right-of-use assets | – | 3,086,677 | 3,086,677 |
| Intangible assets | – | 958,579 | 958,579 |
| **Total assets** | **526,715,381** | **185,609,000** | **712,324,381** |
| **Liabilities** | | | |
| Due to banks and other financial institutions | 16,112,969 | – | 16,112,969 |
| Repurchase agreements | 46,286,760 | 4,185,098 | 50,471,858 |
| Due to customers | 353,634,127 | 8,876,947 | 362,511,074 |
| Derivative financial instruments | – | 1,658,530 | 1,658,530 |
| Borrowed funds | 64,116,844 | 64,840,919 | 128,957,763 |
| Other liabilities | 6,428,754 | 1,230 | 6,429,984 |
| Lease liabilities | 1,721,427 | 1,688,131 | 3,409,558 |
| Income tax liabilities | 1,159,202 | – | 1,159,202 |
| **Total liabilities** | **489,460,083** | **81,250,855** | **570,710,938** |
| Net* | **37,255,298** | **104,358,145** | **141,613,443** |
| **At 31 December 2022** | | | |
| **Assets** | | | |
| Cash and balances with BoM | 127,975,910 | – | 127,975,910 |
| Due from other banks and financial institutions | 51,241,913 | – | 51,241,913 |
| Financial investments | 54,017,402 | 15,608,061 | 69,625,463 |
| Derivative financial instruments | – | 433,677 | 433,677 |
| Loans and advances to customers | 37,503,177 | 171,102,016 | 208,605,193 |
| Other assets | 11,143,051 | – | 11,143,051 |
| Assets held for sale | 1,468,263 | – | 1,468,263 |
| Property and equipment | – | 4,197,543 | 4,197,543 |
| Right-of-use assets | – | 2,760,642 | 2,760,642 |
| Intangible assets | – | 931,856 | 931,856 |
| **Total assets** | **283,349,716** | **195,033,795** | **478,383,511** |
| **Liabilities** | | | |
| Due to banks and other financial institutions | 43,347,904 | – | 43,347,904 |
| Repurchase agreements | 31,545,538 | 33,925,654 | 65,471,192 |
| Due to customers | 211,541,933 | 5,700,501 | 217,242,434 |
| Derivative financial instruments | 62,118 | – | 62,118 |
| Borrowed funds | 17,320,514 | 9,817,110 | 27,137,624 |
| Other liabilities | 2,324,759 | 2,008,340 | 4,333,099 |
| Lease liabilities | 1,172,099 | 1,783,678 | 2,955,777 |
| Income tax liabilities | 1,213,285 | – | 1,213,285 |
| **Total liabilities** | **308,528,150** | **53,235,283** | **361,763,433** |
| Net* | **(25,178,434)** | **141,798,512** | **116,620,078** |

### 33. Maturity analysis of assets and liabilities (cont'd.)

*Certain classification of financial assets and liabilities were based on contractual obligations. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

### 34. Capital adequacy

The adequacy of the Bank's capital is monitored using the rules and ratios established by BoM. During 2023 and 2022, the Bank complied in full with the capital requirements set by the regulatory body.

#### Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios to be able to absorb negative shocks. The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

#### Regulatory capital

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

| | **2023** | **2022** |
|---|---|---|
| Core capital adequacy ratio* | 28.23% | 36.19% |
| Risk-weighted capital ratio* | 28.23% | 36.19% |

The capital adequacy ratios of the Bank as at 31 December were as follows:

| | **2023<br>MNT'000** | **2022<br>MNT'000** |
|---|---|---|
| Tier I Capital | | |
| Share capital | 98,556,822 | 98,556,822 |
| Retained earnings | 41,226,149 | 19,642,410 |
| Total Tier I Capital | **139,782,971** | **118,199,232** |
| Tier II capital | – | – |
| **Total capital/capital base** | **139,782,971** | **118,199,232** |

Per BoM's capital adequacy requirement, other reserves for FVOCI reserve and regulatory reserves are not being included as a component to Tier I or Tier II capital. The breakdown of risk weighted assets into the various categories of risk weights as at 31 December was as follows:

| **%** | **2023** | | **2022** | |
|---|---|---|---|---|
| | **Asset<br>MNT'000** | **Weighted<br>MNT'000** | **Asset<br>MNT'000** | **Weighted<br>MNT'000** |
| 0 | 242,719,190 | – | 155,218,652 | – |
| 20 | 10,738,540 | 2,147,710 | 24,433,340 | 4,885,937 |
| 50 | 31,144,220 | 15,544,760 | 25,685,682 | 12,842,841 |
| 70 | – | – | – | – |
| 80 | – | – | – | – |
| 90 | – | – | – | – |
| 100 | 451,548,660 | 449,767,450 | 287,435,639 | 288,151,394 |
| 150 | 11,818,020 | 12,569,450 | 9,347,133 | 9,791,838 |
| 200 | 763,000 | 1,526,000 | 2,905,650 | 5,811,300 |
| *Adjustments:* | | | | – |
| Allowance for spread of portfolio | – | (4,350) | – | – |
| Operational risk ratio | – | 3,363,290 | – | 2,248,750 |
| Foreign exchange risk ratio | – | 13,960,860 | – | 2,877,058 |
| | 748,731,630 | 498,875,170 | 505,026,096 | 326,609,118 |

### 34. Capital adequacy (cont'd.)

Core capital adequacy ratio and risk-weighted capital ratio presented above are prepared based on unaudited financial information and according to BOM regulations as of 31 December 2023 that were submitted by the Bank to BoM. The core capital adequacy ratio and the risk weighted capital ratio calculated based on the audited financial results prepared in accordance with IFRS are 27.94%, 27.94% respectively.

### 35. Events after the reporting date

On 9 February 2024, the Bank obtained an approval from BoM to repurchase its shares. The bank decided to buy back up to 5% of the total issued shares or 62,500,000 shares from the secondary market. The approval is pending from the FRC as of the financial statement issue date.

On 5 February 2024, the Board of Directors decided to distribute cash dividend of MNT 3,521,752 thousand or MNT 2.8174 per share to all outstanding shares. The dividend is planned to be distributed through "Mongolian Central Securities Depository" LLC and securities companies within 60 days after the approval of the authorized body.

The Bank entered into Finance agreement dated as of 25 January 2024, with EMF Microfinance Fund, AGmvK (EQ). Subject to the terms and conditions of the finance agreement, EQ agrees to make loan available to the bank in a principal amount of USD 4 million dollars. Subsequently on 31 January 2024, the Bank drew down USD 4 million dollars.

### 36. 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.