Financial Statements and Independent Auditor's Report

KHAN BANK LLC

31 December 2022

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Independent Auditor's Report

To the Shareholders of Khan Bank LLC

Our opinion

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

What we have audited

The Bank's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Signed by:

ПРАЙСУОТЕРХАУСКУПЕРС АУДИТ ХХК

Bayarmaa Davaa

Executive Director

PricewaterhouseCoopers Audit LLC

PRICEWATERHOUSECOOPERS AUDIT LLC

Approved by:

Shaukat Tapia

Partner

PricewaterhouseCoopers Audit LLC

24 March 2023

Ulaanbaatar, Mongolia

GENERAL INFORMATION

BOARD OF DIRECTORS	Mrs. Daribum Tudev Mrs. Khulan Dashdavaa Mr. Kisaburo Ishii Mr. Baatarsaikhan Tsagaach Mr. Harada Yasunari Mr. John Law Mr. Amarsanaa Batbold Mr. Tamir Amarbayasgalan Mr. Aart Jongejans
CORPORATE SECRETARY	Mr. Ariuntulga Ochirpurev
REGISTERED OFFICE	Khan Bank Tower Chingis Avenue 6, Stadium, Orgil -1, Khan-Uul district, Ulaanbaatar - 17010, Mongolia
AUDITORS	PricewaterhouseCoopers Audit LLC

ABBREVIATIONS

The following styles of abbreviations are used in these Financial Statements:

AC	Amortised Cost
BoM	Bank of Mongolia
ECL	Expected Credit Losses
EIR	Effective Interest Rate
EAD	Exposure at Default
FVTOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit or Loss
FV	Fair Value
IFRS	International Financial Reporting Standards
IBOR	Interbank Offered Rate
LGD	Loss Given Default
LTECL	Lifetime Expected Credit Loss
MIK	Mongolian Mortgage Corporation
MNT	Mongolian Tugriks
OCI	Other Comprehensive Income
PD	Probability of Default
POCI	Purchased or Originated Credit Impaired
RFR	Risk Free Rate
RMBS	Residential Mortgage-Backed Securities
ROU	Right-of-Use
ROA	Return on Assets
ROE	Return on Equity
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
12mECL	12 Months Expected Credit Loss

In thousands of MNT	Notes	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents	7	4,373,412,201	4,526,979,979
Mandatory reserves with the Bank of Mongolia	8	969,104,827	809,081,732
Investments in debt securities	9	1,474,096,564	909,001,481
Investments in equity securities	9	4,267,181	3,157,209
Derivative financial instruments	11	128,660,248	27,086,528
Loans and advances to customers	12	7,411,064,009	6,589,298,799
Investments in associates	10	283,589	301,888
Other assets	13	76,361,443	78,094,830
Intangible assets	15	46,286,024	54,764,803
Right-of-use assets	16	10,202,947	10,086,653
Properties and equipment	14	455,493,746	455,595,092
Non-current assets classified as held for sale	17	3,480,567	-
TOTAL ASSETS		**14,952,713,346**	**13,463,448,994**
LIABILITIES			
Due to other banks	18	191,080,282	35,854,280
Repurchase agreements	19	367,267,329	620,802,675
Customer accounts	20	10,930,788,356	10,211,450,727
Derivative financial instruments	11	4,896,897	319,756
Other borrowed funds	21	1,776,932,717	1,191,916,946
Current income tax liabilities	31	3,957,990	2,167,852
Deferred income tax liabilities	31	4,709,251	4,579,593
Lease liabilities	16	11,231,249	11,085,695
Other liabilities	22	146,483,209	100,761,094
TOTAL LIABILITIES		**13,437,347,280**	**12,178,938,618**
EQUITY			
Ordinary shares	23	172,097,820	172,097,820
Retained earnings		1,268,756,786	1,018,133,731
Other reserves	23	74,511,460	94,278,825
TOTAL EQUITY		**1,515,366,066**	**1,284,510,376**
TOTAL LIABILITIES AND EQUITY		**14,952,713,346**	**13,463,448,994**

Approved for issue and signed on behalf of the Bank's management on the 24th of March 2023.

DARIBUM T.
Chairwoman, Board of Directors

MUNKHTUYA R.
Chief Executive Officer

ULZII-AYUSH SH.
Vice President, Finance and Administration

BAASANTSEE N.
Head, Financial Management Department

МОНГОЛ УЛС
ХААН БАНК

The notes set out on pages 8 to 106 form and integral part of these financial statements.

In thousands of MNT	Notes	2022	2021
Interest income calculated using the effective interest method	**24**	1,327,391,147	1,139,951,636
Other similar interest income	**24**	39,974,535	38,817,302
Interest expense	**25**	(475,870,927)	(542,305,638)
Other similar interest expense	**25**	(5,213,387)	(1,886,344)
Net margin on interest and similar income		**886,281,368**	**634,576,956**
Credit loss allowance	**28**	(143,514,238)	(87,813,455)
Net margin on interest and similar income after credit loss allowance		**742,767,130**	**546,763,501**
Fee and commission income	**26**	263,466,643	212,086,407
Fee and commission expense	**26**	(47,787,841)	(35,934,290)
Gains from modification of borrowed fund at AC		2,275,457	868,353
Net gains/(losses) from financial derivatives	**27**	15,878,389	(202,377)
Gains less losses from trading in foreign currencies		32,799,045	19,033,665
Net gains/(losses) from foreign exchange translation		6,574,939	(1,696,325)
Losses less gains from disposal of financial assets at FVTOCI		(900,167)	2,252,900
Losses from modification of financial assets at AC		(7,225,649)	-
Losses from financial assets at FVTPL	**29**	(9,019,495)	(8,771,737)
Other operating income		4,317,634	1,287,190
Operating expenses	**30**	(412,043,205)	(348,177,182)
Other losses, net		(269,656)	(951,022)
Profit before tax		**590,833,224**	**386,559,083**
Income tax expense	**31**	(142,061,025)	(95,030,000)
Profit for the period		**448,772,199**	**291,529,083**
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Investments in debt securities at FVTOCI:			
Losses less gains on revaluation		(14,032,658)	(7,856,520)
Gains less losses/(losses less gains) reclassified to profit or loss upon disposal		900,167	(2,252,900)
Cash flow hedge reserve		(11,666,472)	(11,281,559)
Income tax recorded directly in OCI		6,199,740	5,347,744
Items that will not be reclassified to profit or loss:			
Gain less losses on revaluation gain equity instruments at FVTOCI		1,109,972	8,426
Income tax recorded directly in OCI		(277,492)	(2,106)
Other comprehensive loss for the year		**(17,766,743)**	**(16,036,915)**
Total comprehensive income for the year		**431,005,456**	**275,492,168**
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in MNT per share)		**261**	**169**

In thousands of MNT	**Ordinary shares**	**Treasury shares**	**Revaluation reserve on investments at FVTOCI**	**Cash flow hedge reserve**	**Revaluation reserve for premises**	**Retained earnings**	**Total equity**
At 1 January 2021	**58,071,253**	**(7,589,226)**	**13,140,012**	**6,791,008**	**92,638,403**	**1,066,159,570**	**1,229,211,020**
Profit for the year	–	–	–	–	–	291,529,083	**291,529,083**
Other comprehensive loss	–	–	(7,575,746)	(8,461,169)	–	–	**(16,036,915)**
Total comprehensive income	**–**	**–**	**(7,575,746)**	**(8,461,169)**	**–**	**291,529,083**	**275,492,168**
Cancellation of treasury shares (Note 23)	(7,589,226)	7,589,226	–	–	–	–	**–**
Par value increase (Note 23)	121,615,793	–	–	–	–	(141,808,605)	**(20,192,812)**
Dividends (Note 23)	–	–	–	–	–	(200,000,000)	**(200,000,000)**
Realised revaluation reserve	–	–	–		(2,253,683)	2,253,683	**–**
At 31 December 2021	**172,097,820**	**–**	**5,564,266**	**(1,670,161)**	**90,384,720**	**1,018,133,731**	**1,284,510,376**
At 1 January 2022	**172,097,820**	**–**	**5,564,266**	**(1,670,161)**	**90,384,720**	**1,018,133,731**	**1,284,510,376**
Profit for the year	–	–	–	–	–	448,772,199	**448,772,199**
Other comprehensive income	–	–	(9,016,889)	(8,749,854)	–	–	**(17,766,743)**
Total comprehensive income	**–**	**–**	**(9,016,889)**	**(8,749,854)**	**–**	**448,772,199**	**431,005,456**
Dividends (Note 23)	–	–	–	–	–	(200,149,766)	**(200,149,766)**
Realised revaluation reserve	–	–	–	–	(2,000,622)	2,000,622	**–**
At 31 December 2022	**172,097,820**	**–**	**(3,452,623)**	**(10,420,015)**	**88,384,098**	**1,268,756,786**	**1,515,366,066**

The notes set out on pages 8 to 106 form and integral part of these financial statements.

In thousands of MNT	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		590,833,224	386,559,083
Adjustments to reconcile profit before tax to net cash flow:			
Changes in fair value of financial derivatives		(15,878,389)	202,377
Expected credit loss (ECL) expense	**28**	143,514,238	87,813,455
Impairment for repossessed collaterals	**28**	(78,812)	5,985
Depreciation of property and equipment	**30**	54,489,263	54,368,851
Amortisation of intangible assets	**30**	20,643,564	17,703,043
Depreciation of rights of use assets	**30**	7,623,736	7,511,435
Property and equipment written-off		749,553	1,022,560
Intangible asset written-off	**15**	4,349,666	-
Loss on disposal of property and equipment		71,960	(10,038)
Losses less gains from disposal of financial assets at FVTOCI		900,167	(2,252,900)
Losses from modification of financial assets at AC		7,225,649	-
Losses from financial assets at FVTPL		9,019,495	8,771,737
Gains from modification of borrowed fund at AC		(2,275,457)	(868,353)
Gains less losses foreign exchange translation		(6,574,939)	1,696,325
Interest and similar income		(1,367,365,682)	(1,178,768,938)
Interest and similar expense		481,084,314	544,191,982
Cash flow generated from operating activities before changes in operating assets and liabilities		**(71,668,450)**	**(72,053,396)**
Net (increase)/decrease in:			
- mandatory reserves with the BoM		(161,373,304)	(29,513,402)
- loans and advances to customers		(1,398,527,921)	(1,743,406,168)
- due from other banks		-	78,426,073
- other assets		(4,430,702)	(17,272,770)
- debt securities at FVTPL		121,988,100	41,054,900
Net increase/(decrease) in:			
- due to other banks		155,142,345	4,844,957
- customer accounts		757,138,330	842,931,467
- other liabilities		45,389,272	(45,352,148)
Net cash generated from operating activities before tax and interest		**(556,342,330)**	**(940,340,487)**
Interest received		1,383,136,022	1,060,326,443
Interest paid		(482,696,702)	(577,579,548)
Income tax paid	**31.3**	(134,218,981)	(96,559,450)
Net cash flows used in operating activities		**209,878,009**	**(554,153,042)**
Cash flows from investing activities			
Proceeds from disposal of associate		18,299	-
Acquisition of debt securities at FVTOCI		(56,035,308)	(156,535,570)
Proceeds from disposal of debt securities at FVTOCI		92,355,896	162,040,999
Acquisition of debt securities at AC		(467,570,524)	(329,784,384)
Proceeds from redemption of debt securities at AC		281,893,933	316,125,709
Proceeds from disposal of property and equipment		1,717,306	693,349
Acquisition of property and equipment	**14**	(56,926,734)	(45,741,583)
Acquisition of intangible assets	**15**	(16,514,451)	(21,749,042)
Net cash flows used in investing activities		**(221,061,583)**	**(74,950,522)**

In thousands of MNT	**Notes**	**2022**	**2021**
Cash flows from financing activities			
Proceeds from repo agreements	**19**	3,801,304,742	1,793,870,044
Repayment of repo agreements	**19**	(4,071,420,232)	(1,330,383,814)
Proceeds from drawdown of other borrowed funds	**21**	959,412,011	715,271,479
Repayment of other borrowed funds	**21**	(560,785,101)	(688,946,113)
Repayment of principal portion of lease liabilities	**16**	(7,633,424)	(7,110,035)
Dividend paid	**23**	(200,149,766)	(200,000,000)
Net cash flows used in financing activities		**(79,271,770)**	**282,701,561**
Effect of exchange rate changes on cash and cash equivalents		(62,181,031)	45,520,893
Credit loss allowance during the year on cash and cash equivalents	**7**	(931,403)	(113,958)
Net decrease in cash and cash equivalents		**(153,567,778)**	**(300,995,068)**
Cash and cash equivalents brought forward	**7**	4,526,979,979	4,827,975,047
Cash and cash equivalents carried forward	**7**	**4,373,412,201**	**4,526,979,979**

The notes set out on pages 8 to 106 form and integral part of these financial statements.

1. Introduction

KHAN Bank LLC (the “Bank”) is engaged in the business of providing banking and financial services pursuant to License No. 2 issued by the Bank of Mongolia (“BoM”) on 22 November 2006. In accordance with the effective Charter of the Bank, the Bank’s principal activities include:

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

The Bank is a limited liability company incorporated and domiciled in Mongolia. Its registered office is at Khan Bank Tower, Chingis Avenue 6, Stadium, Orgil -1, Khan-Uul district, Ulaanbaatar - 17010, Mongolia.

In February 2022, Sawada Holding Co. Ltd, the ultimate parent company of the Bank as of 31 December 2021, has changed its name to HS Holding Co. Ltd. Therefore, the Bank’s ultimate parent company is HS Holding Co. Ltd, listed on the Tokyo Stock Exchange as of 31 December 2022.

2. Operating environment of the Bank

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

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

In 2022, Mongolia experienced high inflation pressure, which was exacerbated by the impact of the war in Ukraine and heavily impacted food and fuel mainly. In order to mitigate the possible risks that may arise from Russia-Ukraine war, the Bank had significantly decreased and closed all the possible open exposures in relation to Russian banks. Furthermore, China’s zero-Covid policy and weaker economic activity have significantly hit Mongolia’s key exports to China because of land border closures, supply chains disruptions and poor commodity demand. Mongolian national currency, Mongolian tugriks has depreciated against US Dollar 21% as of 31 December 2022 compared to the exchange rate as of 31 December 2021. In response, the central bank has sharply tightened its monetary policy by increasing its policy rate step by step to 13% by December of 2022, from 6% as of January 2022.

Mongolia’s expected real GDP growth is forecasted to accelerate to 5% in 2023. However, lingering border frictions with China, weaker global economic prospects, and higher prices of imports due to the war in Ukraine are expected to constrain the economic recovery. The fact that China has finally opened its borders in early January 2023 and the planned start of underground mine production of Oyu-Tolgoi in the first half of 2023 provides a positive prospect to the economic outlook for 2023 and further. The long-term effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from the actual results.

For the purpose of measurement of expected credit losses (“ECL”) the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Notes 4 and 36 provide more information of how the Bank incorporated forward-looking information in the ECL models.

3. Significant Accounting policies

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

These financial statements are presented in Mongolian Tugrik (MNT), which is the functional currency of the Bank and all values are rounded to the nearest thousands, except when otherwise indicated.

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 37.

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

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

3. Significant accounting policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

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

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

The Bank uses discounted cash flow valuation techniques to determine the fair value of long-term cross currency interest rate swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. If any differences remain after calibration of model inputs, such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight line basis over the term of the currency swaps. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

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

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

Business model is determined for a the Bank of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

3. Significant accounting policies (Continued)

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

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

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

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

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 36 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 36. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 36 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

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

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. Indicators that there is no reasonable expectation of recovery include bankruptcy events of borrowers and the fact no recovery is expected regardless of the outcome of the court decision. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

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

3. Significant accounting policies (Continued)

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

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

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

Payment holidays granted by the Bank in response to COVID-19 pandemic as part of measures taken by the Government are treated as contractual modifications of the respective loans and advances. Their impact on the gross carrying amount (modification loss) is presented in profit or loss within “Losses from modification of financial assets” line item.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

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

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

3. Significant accounting policies (Continued)

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

Mandatory cash balances with the BoM. Mandatory cash balances with the BoM are carried at AC and represent non-interest bearing 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.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

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

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

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

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

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

Impairment allowances are determined based on the forward-looking ECL models. Note 36 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at cost (non-financial assets) or at fair value (financial assets) when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

3. Significant accounting policies (Continued)

The Bank applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Note 36 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Financial guarantees. Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset. Note 36 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

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

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

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are reclassified as repurchase receivables in the statement of financial position if the transferee has the right by contract or custom to sell or re-pledge the securities. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

3. Significant accounting policies (Continued)

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

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

Promissory notes purchased. Promissory notes purchased are included in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Purchased financial guarantees. The accounting for purchased financial guarantees, where the Bank is the beneficiary and is compensated for credit losses incurred on its debt instruments, depends on whether the guarantees are both (i) in substance integral to the terms and conditions of the guaranteed loans and (ii) not recognised separately.

If the financial guarantee is both integral to the guaranteed loan and not recognised separately, fees paid for the guarantee are an integral part of the loan's effective interest rate as transaction costs, unless the loan is measured at FVTPL. If the guaranteed loans are measured at amortised cost, the ability to recover cash flows from financial guarantee is not considered in assessing whether significant increase in credit risk occurred, however, the expected cash flows from the financial guarantee are included in the measurement of ECL of the guaranteed loan.

The financial guarantee is recognised as a separate asset if it is not integral to the terms and conditions of any particular loan or group of loans. Since the financial guarantee is recognised separately, it is not included in the measurement of ECL of the guaranteed loan or loans. The Bank measures the asset recognised for the financial guarantee at the higher of (i) the ECL allowance for related loans and (ii) its cost less cumulative amortisation recognised to allocate the cost of the guarantee over the shorter of (a) the life of the guarantee and (b) expected life of the guaranteed loan or loans. The asset is recognised provided it is virtually certain that the guarantee will reimburse the entity for a loss that it incurs if the borrower fails to pay.

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

Premises are initially measured at cost and are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

If there is no market-based evidence of fair value, fair value is estimated using an income approach. Management has assessed the carrying value of buildings measured in accordance with the revaluation model at the end of the reporting period using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support that there has been no significant changes in fair values.

3. Significant accounting policies (Continued)

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

Equipment owned by the Bank is stated at cost less depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

Leasehold improvements are alterations made to rented properties by the Bank to customise it to its particular business needs and preferences. The improvements that are specialised to the Bank's intended use of the property are treated as own assets for accounting purposes.

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

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

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

	Useful lives in years
Premises	30-67
Computer and hardwares	3-10
Office furniture and equipments	10
Motor vehicles	10
Right-of-use assets	3-5 years

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

Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates. Right-of-use assets are presented separately from property and equipment in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Intangible assets. The Bank's intangible assets include the value of computer software and licenses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Intangible assets with finite lives are amortised on straight-line basis over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods are reviewed at least at each financial year-end. The estimated useful lives of intangible assets are as follows: • Software licenses – from 1 to 5 years

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

3. Significant accounting policies (Continued)

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

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

As an exception to the above, the Bank accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at AC. If the Bank purchases its own debt, the liability is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early repayment of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Financial liabilities designated at FVTPL. The Bank may designate certain liabilities at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss except for the amount of change in the fair value that is attributable to changes in the credit risk of that liability (determined as the amount that is not attributable to changes in market conditions that give rise to market risk), which is recorded in OCI and is not subsequently reclassified to profit or loss. This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in credit risk of the liability are also presented in profit or loss.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Bank. Debt securities are stated at AC. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early repayment of debt.

3. Significant accounting policies (Continued)

Other borrowed funds. Borrowed funds include loans obtained from international financial institutions and Mongolian government organisations. After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost using the EIR method. 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.

Derivative financial instruments. Derivative financial instruments, including currency swaps, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives).

Hedge accounting. The Bank designates certain derivatives (cross-currency swaps) as hedging instruments and they are designed to hedge the risk of variability of cash flows denominated in USD from the long-term borrowings received from foreign banks and financial institutions, which constitute hedge items.

To calculate the changes in fair value of the hedged item attributable to the hedged risk, the Bank uses the hypothetical derivative method. The hypothetical derivative method involves establishing a notional derivative that would be the ideal hedging instrument for the hedged exposure (normally an interest rate swap or forward contract with no unusual terms and a zero fair value at inception of the hedge relationship). The fair value of the hypothetical derivative is then used as a proxy for the net present value of the hedged future cash flows against which changes in value of the actual hedging instrument are compared to assess effectiveness Note 11 and measure ineffectiveness Note 27.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

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

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

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

3. Significant accounting policies (Continued)

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

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

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at AC.

Share capital. Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Mongolian legislation identifies the basis of distribution as the current year net profit.

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'other similar income' line in profit or loss.

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

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

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

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

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, premium service package fees, and other service fees, or fees for servicing loans on behalf of third parties, etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

3. Significant accounting policies (Continued)

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

Sales and purchases of foreign currencies and currency conversion. The Bank sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognised as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

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 differences arising on non-trading activities are taken to other operating income/expense in profit and 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. USD/MNT exchange rate as at 31 December 2022 and 31 December 2021 were 3,444.60 and 2,848.80, respectively.

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

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Amendments of the financial statements after issue. The Bank's shareholders and management have the power to amend the financial statements after issue:

3. Significant accounting policies (Continued)

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2021:

In thousands of MNT	**As originally presented**	**Reclassification**	**As reclassified at 31 December 2021**
Interest expense [1]	1,886,344	(1,886,344)	-
Other similar expense [1]	-	1,886,344	1,886,344
Fee and commission expense [2]	-	18,456,766	18,456,766
Administrative and other operating expenses [2]	18,456,766	(18,456,766)	-
Other operating expense [3]	7,903,384	(7,903,384)	-
Losses from financial assets at fair value through profit or loss [3]	-	(8,771,737)	(8,771,737)
Gains from modification of borrowed fund at AC [3]	-	868,353	868,353
Gains less losses from trading in foreign currencies [4]	2,252,900	(2,252,900)	-
Losses less gains from disposal of financial assets at FVTOCI [4]	-	2,252,900	2,252,900
Administrative and other operating expenses [5]	951,022	(951,022)	-
Other gains, net [5]	-	951,022	951,022

Following items are separately presented on the face of the income statement starting from 2022 as it provides more transparency and relevancy. Comparative amounts have been reclassified in line with the change:

[1] The interest expense in lease liability and unhedged swaps were disclosed as Other similar expense line rather than being combined with interest expense
[2] SMS fee expense were reclassified from administrative and other operating expenses to fee and commission expenses
[3] Losses from modification of financial assets were disclosed separately from other operating expenses.
[4] Losses less gains from disposal of financial assets were disclosed separately from gains less losses from trading in foreign currency**.**
[5] Gain less losses from asset were disclosed separate line**.**

Changes in the presentation of Statement of Cash Flows have been made starting from 2022 as management believes that such presentation provides more relevancy. Comparative amounts have been reclassified in line with the change, which mainly includes:

In thousands of MNT	**As originally presented**	**Reclassification**	**As reclassified at 31 December 2021**
Net cash flows used in operating activities	26,818,301	(580,971,343)	(554,153,042)
Net cash flows used in investing activities	(146,914,742)	71,964,220	(74,950,522)
Net cash flows used in financing activities	(180,784,669)	463,486,230	282,701,561
Effect of exchange rate changes on cash and cash equivalents	-	45,520,893	45,520,893
Credit loss allowance during the year on cash and cash equivalents	-	(113,958)	(113,958)

- Financing from and repayment for repo agreement has been reclassified to “financing activity” in amount of net MNT 463,486,230 thousand which was previously classified in “operating activity”.
- Cash flows from debt securities at FVTPL reclassified to “operating activity in amount of MNT 99,630,597 thousand which is previously included in “investing activity”.
- Interest income and interest paid in relation to Investments in debt securities’ have been classified in “investing activity” which were reclassified to “Operating activity” in amount of MNT 6,588,988 thousand.

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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 consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

4.1. 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 Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- 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 realized 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.

The Bank identified approximately 83% (31 December 2021: 84%) of debt securities as a liquidity portfolio and classified as held to collect and sell, while the rest of the debt securities is classified as held to collect on maturity based on the assumption that these securities would only be sold in a stress case scenario.

The Bank concluded that all types of loans, except for mortgage loan portfolio to be sold to Mongolian Mortgage Corporation LLC ("MIK HFC LLC") and SME loan portfolio to be sold to Security Financing Corporation LLC ("SFC LLC") which are classified as loans at FVTPL, meet the criteria for hold to collect business model.

4.2. Assessment whether cash flows are solely payments of principal and interest (SPPI)

As a second step of its classification process the Bank assesses the contractual terms of financial instruments 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 amortization 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 FVTPL.

The instruments that failed the SPPI test are measured at FVTPL, and it is related to financial instruments under Mortgage lending program and repurchase agreement as part of government program.

4. Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

4.3. Significant increase in credit risk (SICR)

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

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

- 30 days past due for corporate loans, 15 days past due for individual loans
- Restructured loan
- Loans classified as “Special mention” based on the Bank of Mongolia’s Regulation on asset classification, provisioning and its disbursements.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12- months ECL), the expected credit loss allowance would be higher by MNT 52,325,053 thousand as of 31 December 2022 (31 December 2021: higher by MNT 105,820,429 thousand).

4. Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

4.4. ECL measurement

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. The following components have major impact on credit loss allowance (Note 36):

- business model and segmentation of financial assets for the ECL purposes;
- assessment of SICR;
- default definition;
- ECL assessment on individual or collective basis;
- internal credit grading models;
- estimation of exposure at default ("EAD") for financial instruments and credit related commitments;
- assessment of loss given default ("LGD");
- forward-looking macroeconomic scenarios and their probability weightings.

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

Variable	Scenario	Assigned weight	Assumptions
GDP growth	Optimistic	19%	7.7%
	Base	58%	4.3%
	Severe	22%	1.0%
Inflation	Optimistic	19%	5.3%
	Base	58%	8.8%
	Severe	22%	12.1%
Policy rate	Optimistic	19%	15.1%
	Base	58%	13.0%
	Severe	22%	10.9%
Unemployment rate	Optimistic	19%	5.9%
	Base	58%	7.5%
	Severe	22%	9.1%
MNT/USD YoY growth	Optimistic	19%	-3.2%
	Base	58%	6.6%
	Severe	22%	16.5%

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

Variable	Scenario	Assigned weight	Assumptions
GDP growth	Optimistic	7%	9.6%
	Base	18%	6.3%
	Severe	75%	3.0%
Inflation	Optimistic	7%	6.4%
	Base	18%	6.7%
	Severe	75%	10.0%
Policy rate	Optimistic	7%	8.3%
	Base	18%	6.0%
	Severe	75%	3.7%
Unemployment rate	Optimistic	7%	6.2%
	Base	18%	7.8%
	Severe	75%	9.3%
MNT/USD YoY growth	Optimistic	7%	-7.6%
	Base	18%	2.3%
	Severe	75%	12.1%

A change in the weight assigned to base forward looking macro-economic set of assumptions by 10% towards the immediate downside level assumptions would result in an increase in ECL by MNT 4,295,584 thousand at 31 December 2022 (31 December 2021: by MNT 1,710,753 thousand).

A 10% increase in PD estimates would result in an increase or decrease in total expected credit loss allowances of MNT 12,694,866 thousand at 31 December 2022 (31 December 2021: increase of MNT 12,542,747 thousand). A 10% increase in LGD estimates would result in an increase in total expected credit loss allowances of MNT 27,122,065 thousand at 31 December 2022 (31 December 2021: increase of MNT 23,817,207 thousand).

4. Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

4.5. Borrowing from government organizations, central bank and international financial institutions

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

4.6. Mongolian Mortgage Corporation LLC (MIK) securitisation transaction

The Bank participates in MIK securitisation program since 2013. Under the program, MIK-SPCs, wholly owned by MIK HFC LLC, purchases Mortgage loan portfolio from commercial banks for which they issue Junior RMBS and Senior RMBS. The loans have been purchased by MIK-SPCs on non-recourse basis. The principal of the Junior RMBS will only be redeemed after the full redemption of the principal of the Senior RMBS and the payments to Junior RMBS holders are subordinate in right of payment and priority to the Senior RMBS. The Bank has been appointed as the servicer of the respective loans sold and receives a service fee of 2.5% on amount collected for performing this service.

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

4.7. Fair value of long-term derivatives

The Bank entered into a long-term cross currency interest rate SWAP arrangement with the Bank of Mongolia. 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. The Bank developed a valuation model for assessing a fair value of such swap instruments. The model is based on observable market data. As a market USD forward interest rate, the bank uses USD forward yield curve constructed by Bloomberg terminal. Due to the lack of forward MNT yield curve on the market, the bank uses BoM announced market repo rate for the MNT forward interest rate, since it is the market rate used in the swap agreements conducted with Bank of Mongolia.

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

4.8. Hedge accounting

The Bank has started applying hedge accounting from 1 May 2016 and started to apply IFRS 9 for its hedge accounting since 1 January 2018.

In order to qualify for hedge accounting, a hedging relationship must be expected to be highly effective on a prospective basis and it needs to be demonstrated that it was highly effective in the previous designated period (i.e., one month). When applying a quantitative method to assess effectiveness of the hedging relationship, the Bank sets certain the threshold requirements that are accepted within the banks' hedging strategy and risk management policy.

The Bank uses both qualitative and quantitative methods to assess effectiveness of the hedge. In the hedge documentation, the management defined that the hedge ineffectiveness can arise from:

- The timing difference of the cash flows of the hedging instrument and the hedged item;
- The counterparty's credit risk impact on the fair values; and
- Difference between agreed forward exchange rate and market forward exchange rate as of hedge accounting inception date.

IFRS 9 recommends hedge accounting to align with the bank's risk management objectives and requires to make an on-going assessment of whether the hedge continues to meet the hedge effectiveness criteria. Although IFRS 9 does not require the hedge ratio to be within specific range like IAS 39, the bank internally set hedge effectiveness ratio to be within 60%-140% range and the bank constantly measures the hedge effectiveness.

5. Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2022:

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

The application of the amendments had no significant impact on the Bank's financial statements.

6. New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Cash and cash equivalents

In thousands of MNT	31 December 2022	31 December 2021
Cash on hand	212,128,736	186,773,015
Current account with BoM	1,250,828,153	596,212,932
BoM treasury bills	1,924,514,033	3,341,595,707
Due from banks - less than three months	981,378,356	373,762,780
Government bonds	6,848,102	-
Reverse securities sale and repurchase agreements with other banks with original maturities of less than 3 months	-	29,989,321
Total carrying amount of cash and cash equivalents	**4,375,697,380**	**4,528,333,755**
Less: Credit loss allowance on cash and cash equivalents	(2,285,179)	(1,353,776)
Net cash and cash equivalents	**4,373,412,201**	**4,526,979,979**

As of 31 December 2022, the Bank had current accounts held with three Russian banks in amount of MNT 192,649 thousand, which the Bank assessed to have significant increase in the credit risk and therefore classified them in Stage 2 and provided lifetime ECL in amount of MNT 151,711 thousand. Remaining cash and cash equivalent balances are classified in Stage 1.

BoM treasury bills are collateralized by repurchase agreements in the amount of MNT 175,582,000 thousand as of 31 December 2022 (31 December 2021: MNT 0). The pledgee does not have right to repledge or sell those treasury bills. Remaining cash and cash equivalents, including the balances with the central bank (other than mandatory reserve) are not collateralised.

Impairment allowance for cash and cash equivalents excluding cash on hand

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. The Bank uses S&P's annual global corporate and sovereign default and rating transition study in the impairment valuation of non-credit financial assets and uses speculative grade rates for the non-rated corporate. 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 36:

Internal rating grade as at 31 December 2022:

In thousands of MNT	Current account with BoM	BoM treasury bills	Due from banks - less than three months	Government bonds	Total
AA– to AA+ rating	-	-	83,992,693	6,848,102	90,840,795
A– to A+ rated	-	-	213,857,899	-	213,857,899
BBB– to BBB+ rated	-	-	6,595,720	-	6,595,720
BB– to BB+ rated	-	-	4,300,157	-	4,300,157
B– to B+ rated	1,250,828,153	1,924,514,033	654,503,266	-	3,829,845,452
C to CCC+ rated	-	-	192,649	-	192,649
Not rated	-	-	17,935,972	-	17,935,972
Total	**1,250,828,153**	**1,924,514,033**	**981,378,356**	**6,848,102**	**4,163,568,644**

Internal rating grade as at 31 December 2021:

In thousands of MNT	Current account with BoM	BoM treasury bills	Due from banks - less than three months	Reverse securities sale and repurchase agreements	Total
AA– to AA+ rating	-	-	83,427,389	-	83,427,389
A– to A+ rated	-	-	208,174,986	-	208,174,986
BBB– to BBB+ rated	-	-	22,989,827	-	22,989,827
BB– to BB+ rated	-	-	4,922,878	-	4,922,878
B– to B+ rated	596,212,932	3,341,595,707	35,354,753	29,989,321	4,003,152,713
C to CCC+ rated	-	-	-	-	-
Not rated	-	-	18,892,947	-	18,892,947
Total	**596,212,932**	**3,341,595,707**	**373,762,780**	**29,989,321**	**4,341,560,740**

8. Mandatory reserves with the Bank of Mongolia

In thousands of MNT	**31 December 2022**	**31 December 2021**
Mandatory reserves with the BoM	980,607,485	818,615,281
Less: Credit loss allowance on mandatory reserves with the BoM	(11,502,658)	(9,533,549)
Net mandatory reserves	**969,104,827**	**809,081,732**

The mandatory reserve held with the BoM are determined at not less than 8.0% (local currency) and 18.0% (foreign currency) of customer deposits based on average balance of two (2) weeks. As at 31 December 2022, the average reserves required by BoM for that period of 2 weeks were MNT 589,764,840 thousand (2021: MNT 504,784,204 thousand) for local currency and MNT 390,842,645 thousand (2021: MNT 313,831,077 thousand) maintained on current accounts with BoM.

The credit quality of mandatory reserves with the Bank of Mongolia based on the Bank's internal credit rating system is in the range of "B- to B+ rated" as at 31 December 2022 and 31 December 2021. 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 36. For the purpose of ECL measurement, mandatory reserves with the Bank of Mongolia are included in Stage 1 as of 31 December 2022 and 31 December 2021.

An analysis of changes in the gross carrying amount and the corresponding ECL allowance as at 31 December 2022 and 31 December 2021 is, as follows:

In thousands of MNT	**2022 Stage 1**	**2021 Stage 1**
Gross carrying amount as at 1 January	**818,615,281**	**752,262,088**
Net movement during the year	161,992,204	66,353,193
At 31 December	**980,607,485**	**818,615,281**
ECL allowance as at 1 January	**9,533,549**	**8,926,490**
Net charge for the year (Note 28)	1,969,109	607,059
At 31 December	**11,502,658**	**9,533,549**

9. Financial investments

In thousands of MNT	31 December 2022	31 December 2021
Debt securities measured at FVTPL	249,068,185	149,905,024
Debt securities at FVTOCI	186,302,687	206,007,659
Debt securities at AC	1,038,725,692	553,088,798
Total debt securities	**1,474,096,564**	**909,001,481**
Equity securities measured at FVTOCI	4,267,181	3,157,209
Total equity securities	**4,267,181**	**3,157,209**
Total investment	**1,478,363,745**	**912,158,690**

Debt securities represent Government bonds, BoM treasury bills, senior and junior RMBSs and Corporate bonds.

Government bonds, listed on international markets, are measured either at FVTOCI or AC following the business model of the financial assets.

BoM treasury bills, unquoted securities, are measured at AC are interest-bearing long-term securities issued by the Government.

Senior RMBSs are interest bearing long-term securities issued by MIK and are required to be sold to BoM and Ministry of Finance of Mongolia as repayment for the mortgage funding which was issued to commercial banks for financing subsidised mortgage loans.

Junior RMBS are interest-bearing long-term securities issued by MIK which per the Securities Law of Mongolia, are required to be held by commercial banks for at least 3 years.

In addition to that, investments in asset backed securities issued by Securities Financing Corporation LLC (“SFC”) are included in both senior and junior RMBS.

Equity securities at fair value represent equity investment in MIK Holding JSC (“MIK”), listed on the Mongolian Stock Exchange.

The increase in debt securities measured at FVTPL and at AC in 2022 relates to the investments in asset backed securities issued by SFC as well as investments in BoM treasury bills, while the decrease in Debt securities at FVTOCI relates to the redemption of investment in Corporate bonds and Government bonds measured at FVTOCI.

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

In thousands of MNT	Debt securities measured at FVTPL	Debt securities at FVTOCI	Debt securities at AC	Total
Government bonds	-	196,655,885	640,457,405	**837,113,290**
BoM treasury bills	-	-	308,425,600	**308,425,600**
Senior bonds	74,849,224	-	73,501,171	**148,350,395**
Junior bonds	174,218,961	-	-	**174,218,961**
Corporate bonds	2,813,284	-	28,340,059	**31,153,343**
Total gross carrying amount	**251,881,469**	**196,655,885**	**1,050,724,235**	**1,499,261,589**
Less: credit loss allowance	-	(1,722,511)	(11,998,543)	**(13,721,054)**
Less: fair value adjustment	(2,813,284)	(8,630,687)	-	**(11,443,971)**
Carrying value (fair value)	**249,068,185**	**186,302,687**	**1,038,725,692**	**1,474,096,564**

9. Financial investments (Continued)

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

In thousands of MNT	Debt securities measured at FVTPL	Debt securities at FVTOCI	Debt securities at AC	Total
Government bonds	-	190,036,974	538,593,405	**728,630,379**
Senior bonds	36,536,559	-	-	**36,536,559**
Junior bonds	113,368,465	-	-	**113,368,465**
Corporate bonds	2,326,681	14,958,410	23,853,504	**41,138,595**
Total gross carrying amount	**152,231,705**	**204,995,384**	**562,446,909**	**919,673,998**
Less: credit loss allowance	-	(3,489,529)	(9,358,111)	**(12,847,640)**
Less: fair value adjustment	(2,326,681)	4,501,804	-	**2,175,123**
Carrying value (fair value)	**149,905,024**	**206,007,659**	**553,088,798**	**909,001,481**

Movements in the credit loss allowance and in the gross carrying amount of debt instruments measured at FVTOCI and debt instruments at AC.

In thousands of MNT	Debt securities measured at FVTOCI	Debt securities at AC
Gross carrying amount at 1 January 2022	209,497,188	562,446,909
Purchase/Addition	56,035,308	696,246,124
Interest accrued	5,793,611	6,071,658
Matured/repaid financial investments	(93,256,063)	(281,893,933)
Repayment of interest	(11,851,716)	(48,687,385)
Foreign exchange difference	35,839,528	116,540,862
Decrease in fair value	(14,032,658)	–
At 31 December 2022	**188,025,198**	**1,050,724,235**
ECL allowance at 1 January 2022	**3,489,529**	**9,358,111**
Purchase of new investments	485,888	6,044,161
Changes to input used for ECL calculation	(1,216,898)	(1,887,431)
Recoveries/matured/repaid	(1,036,008)	(1,516,298)
Net (reversal)/charge for the period (Note 28)	**(1,767,018)**	**2,640,432**
At 31 December 2022	**1,722,511**	**11,998,543**
At 31 December 2022	**186,302,687**	**1,038,725,692**

9. Financial investments (Continued)

In thousands of MNT	Debt securities measured at FVTOCI	Debt securities at AC
Gross carrying amount at 1 January 2021	**204,295,155**	**534,885,253**
Purchase/Addition	156,535,570	329,784,384
Interest accrued	12,198,719	43,000,246
Net movement of unamortised discount	13,472,185	14,470,192
Matured/repaid financial investments	(159,788,090)	(316,125,718)
Repayment of interest	(10,790,982)	(41,831,260)
Foreign exchange difference	1,431,151	(1,736,188)
Decrease in fair value	(7,856,520)	-
At 31 December 2021	**209,497,188**	**562,446,909**
ECL allowance at 1 January 2021	**3,261,668**	**5,682,856**
Purchase of new investments	2,778,302	4,919,320
Changes to input used for ECL calculation	(1,084,001)	(383,384)
Recoveries/matured/repaid	(1,466,440)	(860,681)
Net charge for the period (Note 28)	227,861	3,675,255
At 31 December 2021	**3,489,529**	**9,358,111**
At 31 December 2021	**206,007,659**	**553,088,798**

The table below contains an analysis of the credit risk exposure of debt securities measured at FVTOCI for which an ECL allowance is recognised, based on credit risk grades. All debt instruments measured at FVTOCI are included in Stage 1. Refer to Note 36 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, include definition of default and SICR as applicable to debt securities at FVTOCI.

In thousands of MNT	31 December 2022				31 December 2021			
	Gross carrying amount	Credit loss allowance	Fair value adjustment from AC to FV	Carrying value (fair value)	Gross carrying amount	Credit loss allowance	Fair value adjustme nt from AC to FV	Carrying value (fair value)
AA- to AA+								
Government bonds	43,034,009	-	(69,593)	**42,964,416**	-	-	-	-
B- to B+								
Government bonds	153,621,876	(1,722,511)	(8,561,094)	**143,338,271**	190,036,974	(3,233,310)	3,403,654	**190,207,318**
Corporate bonds	-	-	-	-	14,958,410	(256,219)	1,098,150	**15,800,341**
Total debt securities measured at FVTOCI	**196,655,885**	**(1,722,511)**	**(8,630,687)**	**186,302,687**	**204,995,384**	**(3,489,529)**	**4,501,804**	**260,007,659**

9. Financial investments (Continued)

The following table contains an analysis of debt instruments at AC by credit quality based on credit risk grades. All debt instruments measured at AC are included in Stage 1. Refer to Note 36 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt instruments at AC.

In thousands of MNT	31 December 2022			31 December 2021		
	Gross carrying amount	**Credit loss allowance**	**Carrying value (fair value)**	**Gross carrying amount**	**Credit loss allowance**	**Carrying value (fair value)**
- B- to B+						
Government bonds	640,457,405	(8,177,104)	**632,280,301**	538,593,405	(8,949,531)	**529,643,873**
BoM treasury bills	308,425,600	(1,039,757)	**307,385,842**	-	-	-
Senior bonds	73,501,171	(2,389,883)	**71,111,288**	-	-	-
Corporate bonds	28,340,059	(391,799)	**27,948,260**	23,853,504	(408,580)	**23,444,924**
Total debt securities measured at AC	**1,050,724,235**	**(11,998,543)**	**1,038,725,692**	**562,446,909**	**(9,358,111)**	**553,088,798**

10. Investments in associate

In thousands of MNT	31 December 2022	31 December 2021
Credit Information Bureau (CIB)	243,638	243,638
Mongolian Banking Association Property Management (MBAPM)	39,951	58,250
	283,589	**301,888**

As of 31 December 2022, the Bank's ownerships in MBAPM and CIB were 10.0% and 18.88%, respectively. (2021: 14.58% and 18.88%). The Bank exercises significant influence through their representations in the Board of Directors of these entities. During the year, no share of profits of these associates were accounted for by the Bank as they were deemed de minimis.

11. 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		**Fair value**	
In thousands of MNT	**Receivable**	**Payable**	**Fair value of assets**	**Fair value of liabilities**
Total long-term derivatives	**1,280,737,905**	**1,159,776,705**	**128,660,248**	**4,516,477**
Hedging instruments eligible for hedge accounting	786,792,419	696,402,522	91,425,523	(149,503)
Hedging instruments not eligible for hedge accounting	493,945,486	463,374,183	37,234,725	4,665,980
Total short-term derivatives	**48,700,955**	**48,673,261**	**-**	**380,420**
31 December 2022	**1,329,438,860**	**1,208,449,966**	**128,660,248**	**4,896,897**

	Notional amount		**Fair value**	
In thousands of MNT	**Receivable**	**Payable**	**Fair value of assets**	**Fair value of liabilities**
Total long-term derivatives	**513,839,684**	**485,885,071**	**27,086,528**	**-**
Hedging instruments eligible for hedge accounting	479,638,890	454,605,456	23,736,439	-
Hedging instruments not eligible for hedge accounting	34,200,794	31,279,615	3,350,089	-
Total short-term derivatives	**59,049,469**	**58,959,924**	**-**	**319,756**
31 December 2021	**572,889,153**	**544,844,995**	**27,086,528**	**319,756**

The table below sets out the fair values, at the end of the reporting period, of currencies receivable or payable under the foreign exchange forward and swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

11. Derivative financial investments (Continued)

In thousands of MNT	Assets 2022	Liabilities 2022	Assets 2021	Liabilities 2021
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
– Receivable on settlement (+)	1,254,515,848	48,037,585	512,971,599	30,073
– Payable on settlement (–)	(1,125,855,600)	(52,934,482)	(485,885,071)	(349,829)
Net fair value of foreign exchange forwards and swaps	**128,660,248**	**(4,896,897)**	**27,086,528**	**(319,756)**

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of its market risk. The effects of respective hedge accounting on financial position and performance are disclosed in Note 27 and Note 36 and below.

In terms of hedge eligible for hedge accounting, the USD denominated long-term borrowings received from foreign banks and financial institutions designated as hedged item being eligible for hedge accounting have a notional amount of USD 228,413 thousand as of 31 December 2022 (31 December 2021: USD 168,365 thousand) with annual floating interest rates ranging from 6m Libor or SOFR plus margin of 3.0% to 4.2% (31 December 2021: 6m Libor plus margin of 3% to 5.5%) or fixed annual interest rates ranging from 3.5% to 4.5% (31 December 2021: 3.5% to 5%).

11. Derivative financial investments (Continued)

The following table provides information regarding the changes in the fair value of hedging instruments eligible for hedge accounting.

Cash flow hedges *in thousands of MNT*	**Hedging instrument**	**Hedged risk**	**Changes in the fair value of hedging instruments eligible for hedge accountin**	**Change in value of the hedged item used for calculating ineffectiveness**	**Hedge ineffectiveness recognised in the statement of profit and loss**
31 December 2022	Cross currency interest rate swap	FX risk	97,232,286	(81,958,751)	15,273,535
31 December 2021	Cross currency interest rate swap	FX risk	(10,303,383)	11,233,271	929,888

The table below provides a breakdown of hedging instruments' timing profile:

In thousands of MNT	**Less than 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**
MNT receivables	-	8,722,952	8,641,516	13,002,992	-
Average MNT rate	-	14.5%	14.5%	14.5%	-
MNT payables	45,150,343	40,200,785	170,593,113	805,649,362	63,737,102
Average MNT rate	12.3%	11.6%	11.4%	13.8%	14.0%
USD receivables	59,050,286	47,232,027	200,930,005	875,367,728	67,790,399
Average USD rate	9.7%	11.1%	10.0%	12.4%	12.6%
USD payables	-	9,644,880	9,989,340	14,811,780	-
Average USD rate	-	12.9%	13.0%	12.9%	-

12. Loans and advances to customers

In thousands of MNT	31 December 2022	31 December 2021
Gross carrying amount of loans and advances to customers at AC	7,599,161,904	6,457,320,642
Less credit loss allowance	(566,704,290)	(428,337,712)
Total carrying amount of loans and advances to customers at AC	**7,032,457,614**	**6,028,982,930**
Loans and advances at FVTPL	378,606,395	560,315,869
Total loans and advances to customers	**7,411,064,009**	**6,589,298,799**

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

	31 December 2022			31 December 2021		
In thousands of MNT	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Business loans	4,004,941,079	(423,291,321)	3,581,649,758	3,703,581,060	(326,797,695)	3,376,783,365
Consumer loans	2,888,108,397	(130,476,550)	2,757,631,847	2,159,795,450	(98,108,246)	2,061,687,204
Agricultural loans	706,112,428	(12,936,419)	693,176,009	593,944,132	(3,431,771)	590,512,361
Total	**7,599,161,904**	**(566,704,290)**	**7,032,457,614**	**6,457,320,642**	**(428,337,712)**	**6,028,982,930**

On 20 February 2021, the Government of Mongolia has approved a plan worth MNT 10 trillion “Economic recovery plan and citizen’s health protection program”. The program consisted of 5 components supporting SMEs, housing, strategically important projects, agricultural productions and access to education, expected to continue until the end of 2023.

More detailed explanation of classes of loans to legal entities is provided below:

- Business loans: Loans issued to corporates and individuals for providing financial needs of business activities;
- Consumer loans: Loans issued to individuals for financing consumption;
- Agricultural loans: Loans issued to corporates and individuals which engage in agricultural activities for both purposes of business and consumption.

12. Loans and Advances to Customers (Continued)

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting and comparative periods:

	Credit loss allowance				Gross carrying amount			
In thousands of MNT	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
BUSINESS LOANS								
At 31 December 2021	**96,460,460**	**50,887,046**	**179,450,189**	**326,797,695**	**2,832,784,866**	**625,745,352**	**245,050,842**	**3,703,581,060**
New originated or purchased	53,702,284	36,411,902	-	90,114,186	6,052,432,689	180,979,051	-	6,233,411,740
Derecognized during the period	(42,255,403)	(21,511,593)	(31,189,785)	(94,956,781)	(5,687,561,105)	(180,799,092)	(66,768,190)	(5,935,128,387)
- Transfers to Stage 1	1,467,894	(5,739,399)	-	(4,271,505)	125,053,586	(125,053,586)	-	-
- Transfers to Stage 2	(41,028,927)	97,019,117	(1,474,638)	54,515,552	(737,014,414)	740,642,154	(3,627,740)	-
- Transfers to Stage 3	-	(24,552,721)	55,558,024	31,005,303	-	(127,838,378)	127,838,378	-
Changes in accrued interest	(277,116)	2,293,304	(2,960,215)	(944,027)	1,242,678	2,335,770	(3,709,193)	(130,745)
Changes to models	(9,468,097)	(14,119,872)	43,414,699	19,826,730	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(37,859,365)**	**69,800,738**	**63,348,085**	**95,289,458**	**(245,846,566)**	**490,265,919**	**53,733,255**	**298,152,608**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(121,029)	(121,029)	-	-	(121,029)	(121,029)
Foreign exchange translation and other movements	35,808	10,502	1,278,887	1,325,197	2,096,527	36,655	1,195,258	3,328,440
At 31 December 2022	**58,636,903**	**120,698,286**	**243,956,132**	**423,291,321**	**2,589,034,827**	**1,116,047,926**	**299,858,326**	**4,004,941,079**

12. Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of MNT	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
BUSINESS LOANS								
At 31 December 2020	**59,905,987**	**50,831,454**	**164,097,110**	**274,834,551**	**1,627,651,484**	**868,544,885**	**229,104,524**	**2,725,300,893**
New originated or purchased	95,116,576	27,928,785	-	123,045,361	5,661,650,260	254,381,571	-	5,916,031,831
Derecognized during the period	(48,718,336)	(21,929,475)	(29,970,335)	(100,618,146)	(4,367,966,656)	(530,583,934)	(39,124,899)	(4,937,675,489)
- Transfers to Stage 1	86,350	(1,306,826)	-	(1,220,476)	5,063,558	(5,063,558)	-	-
- Transfers to Stage 2	(7,437,234)	12,828,905	(1,175,296)	4,216,375	(105,326,572)	108,312,917	(2,986,345)	-
- Transfers to Stage 3	-	(16,817,673)	44,550,725	27,733,052	-	(56,304,174)	56,304,174	-
Changes in accrued interest	(2,491,308)	(646,630)	2,075,647	(1,062,291)	11,835,060	(13,528,578)	1,882,010	188,492
Total movements with impact on credit loss allowance charge for the period	**36,556,048**	**57,086**	**15,480,741**	**52,093,875**	**1,205,255,650**	**(242,785,756)**	**16,074,940**	**978,544,834**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(127,198)	(127,198)	-	-	(127,198)	(127,198)
Foreign exchange translation and other movements	(1,575)	(1,494)	(464)	(3,533)	(122,268)	(13,777)	(1,424)	(137,469)
At 31 December 2021	**96,460,460**	**50,887,046**	**179,450,189**	**326,797,695**	**2,832,784,866**	**625,745,352**	**245,050,842**	**3,703,581,060**

12. Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of MNT	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
CONSUMER LOANS								
At 31 December 2021	**23,075,238**	**3,995,492**	**71,037,516**	**98,108,246**	**1,997,972,963**	**38,056,012**	**123,766,475**	**2,159,795,450**
New originated or purchased	13,665,415	1,932,384	-	15,597,799	4,786,358,919	5,283,924	-	4,791,642,843
Derecognized during the period	(7,271,861)	(1,249,888)	(17,913,122)	(26,434,871)	(3,945,889,802)	(83,570,027)	(40,361,948)	(4,069,821,777)
- Transfers to Stage 1	26,602	(343,667)	-	(317,065)	2,649,475	(2,649,475)	-	-
- Transfers to Stage 2	(12,142,014)	20,441,118	(3,581,084)	4,718,020	(375,297,406)	381,490,666	(6,193,260)	-
- Transfers to Stage 3	-	(4,748,335)	18,207,896	13,459,561	-	(40,294,198)	40,294,198	-
Changes in accrued interest	(73,848)	116,516	8,306	50,974	5,828,669	1,933,717	15,039	7,777,425
Changes to models	(991,913)	(493,903)	28,141,919	26,656,103	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(6,787,619)**	**15,654,225**	**24,863,915**	**33,730,521**	**473,649,855**	**262,194,607**	**(6,245,971)**	**729,598,491**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(1,393,080)	(1,393,080)	-	-	(1,393,080)	(1,393,080)
Foreign exchange translation and other movements	412	1,194	29,257	30,863	51,803	4,996	50,737	107,536
At 31 December 2022	**16,288,031**	**19,650,911**	**94,537,608**	**130,476,550**	**2,471,674,621**	**300,255,615**	**116,178,161**	**2,888,108,397**

12. Loans and Advances to Customers (Continued)

In thousands of Mongolian tugriks	**Credit loss allowance**				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
CONSUMER LOANS								
At 31 December 2020	**13,467,863**	**2,435,643**	**71,944,883**	**87,848,389**	**1,803,296,619**	**61,824,821**	**126,560,858**	**1,991,682,298**
New originated or purchased	17,132,356	1,540,437	-	18,672,793	3,070,991,642	7,256,645	-	3,078,248,287
Derecognized during the period	(5,376,476)	(430,889)	(18,090,647)	(23,898,012)	(2,839,686,744)	(25,393,279)	(37,794,085)	(2,902,874,108)
- Transfers to Stage 1	71,380	(569,961)	-	(498,581)	4,489,788	(4,489,788)	-	-
- Transfers to Stage 2	(2,297,943)	4,880,060	(540,395)	2,041,722	(38,514,494)	39,482,480	(967,986)	-
- Transfers to Stage 3	-	(3,962,888)	20,391,469	16,428,581	-	(40,057,843)	40,057,843	-
Changes in accrued interest	78,058	103,090	(1,788,322)	(1,607,174)	(2,603,740)	(567,018)	(3,210,614)	(6,381,372)
Total movements with impact on credit loss allowance charge for the period	**9,607,375**	**1,559,849**	**(27,895)**	**11,139,329**	**194,676,452**	**(23,768,803)**	**(1,914,842)**	**168,992,807**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(879,457)	(879,457)	-	-	(879,457)	(879,457)
Foreign exchange translation and other movements	-	-	(15)	(15)	(108)	(6)	(84)	(198)
At 31 December 2021	**23,075,238**	**3,995,492**	**71,037,516**	**98,108,246**	**1,997,972,963**	**38,056,012**	**123,766,475**	**2,159,795,450**

12. Loans and Advances to Customers (Continued)

In thousands of MNT	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Agricultural loans								
At 31 December 2021	**2,506,248**	**446,208**	**479,315**	**3,431,771**	**581,953,816**	**10,666,136**	**1,324,180**	**593,944,132**
New originated or purchased	2,711,805	6,020	-	2,717,825	674,530,057	240,972	-	674,771,029
Derecognized during the period	(1,569,308)	(198,669)	(329,061)	(2,097,038)	(561,172,913)	(6,915,532)	(550,321)	(568,638,766)
- Transfers to Stage 1	520	(791)	-	(271)	416,235	(416,235)	-	-
- Transfers to Stage 2	(2,200,070)	2,645,409	-	445,339	(36,289,577)	36,289,577	-	-
- Transfers to Stage 3	-	(903,692)	1,649,833	746,141	-	(3,834,283)	3,834,283	-
Changes in accrued interest	(48,982)	39,921	358	(8,703)	4,851,978	1,193,051	498	6,045,527
Changes to models	5,646,354	114,054	1,950,441	7,710,849	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**4,540,319**	**1,702,252**	**3,271,571**	**9,514,142**	**82,335,780**	**26,557,550**	**3,284,460**	**112,177,790**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(9,494)	(9,494)	-	-	(9,494)	(9,494)
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 31 December 2022	**7,046,567**	**2,148,460**	**3,741,392**	**12,936,419**	**664,289,596**	**37,223,686**	**4,599,146**	**706,112,428**

12. Loans and Advances to Customers (Continued)

In thousands of MNT	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Agricultural loans								
At 31 December 2020	**693,276**	**80,572**	**1,083,077**	**1,856,925**	**386,635,750**	**24,571,952**	**2,232,534**	**413,440,236**
New originated or purchased	2,645,570	31,568	-	2,677,138	633,365,728	965,150	-	634,330,878
Derecognized during the period	(511,017)	(51,637)	(910,075)	(1,472,729)	(429,649,058)	(19,539,842)	(1,870,043)	(451,058,943)
- Transfers to Stage 1	-	-	-	-	-	-	-	-
- Transfers to Stage 2	(382,277)	427,871	-	45,594	(6,925,637)	6,925,637	-	-
- Transfers to Stage 3	-	(60,183)	355,674	295,491	-	(1,060,684)	1,060,684	-
Changes in accrued interest	60,696	18,017	(43,850)	34,863	(1,472,967)	(1,196,077)	(93,484)	(2,762,528)
Total movements with impact on credit loss allowance charge for the period	**1,812,972**	**365,636**	**(598,251)**	**1,580,357**	**195,318,066**	**(13,905,816)**	**(902,843)**	**180,509,407**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(5,511)	(5,511)	-	-	(5,511)	(5,511)
Foreign exchange translation and other movements	-	-	-	-	-	-	-	-
At 31 December 2021	**2,506,248**	**446,208**	**479,315**	**3,431,771**	**581,953,816**	**10,666,136**	**1,324,180**	**593,944,132**

12. Loans and Advances to Customers (Continued)

Credit quality of gross carrying amounts as at 31 December 2022 and 31 December 2021:

		31 December 2022				31 December 2021			
	Pd range	**Business loans**	**Consumer loans**	**Agricultural loans**	**Gross carrying amount**	**Business loans**	**Consumer loans**	**Agricultural loans**	**Gross carrying amount**
Stage 1	from 0,00% to <0,15%	96,648,415	98,463,749	6,877,407	201,989,571	-	-	-	-
	from 0,15% to <0,25%	-	45,064,313	-	45,064,313	-	-	-	-
	from 0,25% to <0,50%	63,868,347	55,812,919	5,320,841	125,002,107	-	-	-	-
	from 0,50% to <0,75%	-	69,812,163	-	69,812,163	-	-	532,076,272	532,076,272
	from 0,75% to <2,50%	248,768,640	2,196,953,755	88,886,223	2,534,608,618	-	1,589,372,099	-	1,589,372,099
	from 2,50% to <10,0%	2,175,768,853	25,062	562,798,858	2,738,592,773	2,632,887,988	408,600,864	-	3,041,488,852
	from 10,0% to <45,0%	33,261	1,187,563	155,982	1,376,806	197,670,342	-	49,877,544	247,547,886
	from 45,0% to <64,0%	3,947,311	4,355,097	250,285	8,552,693	2,226,536	-	-	2,226,536
	Total Stage 1	**2,589,034,827**	**2,471,674,621**	**664,289,596**	**5,724,999,044**	**2,832,784,866**	**1,997,972,963**	**581,953,816**	**5,412,711,645**
Stage 2	from 0,00% to <0,15%	14,848,516	702,225	732,057	16,282,798	-	-	-	-
	from 0,15% to <0,25%	-	63,146		63,146	-	-	-	-
	from 0,25% to <0,50%	8,577,036	154,701	62,121	8,793,858	-	-	-	-
	from 0,50% to <0,75%	-	387,471	-	387,471	-	-	4,155,376	4,155,376
	from 0,75% to <2,50%	29,747,144	3,040,778	821,953	33,609,875	-	2,927,112	-	2,927,112
	from 2,50% to <10,0%	474,861,591	50,782,483	10,070,095	535,714,169	193,891,704	24,117,583	-	218,009,287
	from 10,0% to <45,0%	486,684,892	182,978,985	22,615,318	692,279,195	422,962,281	5,162,543	6,337,417	434,462,241
	from 45,0% to <100,0%	101,328,747	62,145,826	2,922,142	166,396,715	8,891,367	5,848,774	173,343	14,913,484
	Total Stage 2	**1,116,047,926**	**300,255,615**	**37,223,686**	**1,453,527,227**	**625,745,352**	**38,056,012**	**10,666,136**	**674,467,500**

12. Loans and Advances to Customers (Continued)

		31 December 2022				31 December 2021			
	Default period	**Business loans**	**Consumer loans**	**Agricultural loans**	**Gross carrying amount**	**Business loans**	**Consumer loans**	**Agricultural loans**	**Gross carrying amount**
Stage 3	up to 12 months	107,249,861	34,204,168	3,013,120	144,467,149	62,693,507	32,296,729	827,289	95,817,525
	from 13 to 24 months	46,286,911	17,220,672	210,221	63,717,804	35,192,371	30,739,222	159,929	66,091,522
	from 25 to 36 months	17,619,868	18,321,165	1,088,742	37,029,775	11,292,622	36,567,593	40,026	47,900,241
	from 37 to 48 months	9,425,754	27,650,351	44,870	37,120,975	2,831,381	12,283,621	61,892	15,176,894
	from 49 to 60 months	2,320,701	9,579,778	38,641	11,939,120	61,245,759	4,361,757	7,738	65,615,254
	from 61 to 84 months	66,470,642	5,600,293	69,601	72,140,536	43,762,135	5,946,028	179,080	49,887,243
	above 84 months	50,484,589	3,601,734	133,951	54,220,274	28,033,067	1,571,525	48,226	29,652,818
	Total Stage 3	**299,858,326**	**116,178,161**	**4,599,146**	**420,635,633**	**245,050,842**	**123,766,475**	**1,324,180**	**370,141,497**

12. Loans and advances to customers (Continued)

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

	31 December 2022		31 December 2021	
SECTOR	**Amount**	**%**	**Amount**	**%**
Individuals	3,159,939,182	40%	2,445,044,993	35%
Trade and commerce	1,673,187,356	21%	1,477,568,507	21%
Small private enterprises	738,707,336	9%	703,056,719	10%
Construction	655,176,274	8%	637,930,411	9%
Processing	440,099,237	6%	408,931,666	6%
Agriculture	407,036,155	5%	327,853,239	5%
Transportation	244,174,665	3%	248,400,886	4%
Real estate	170,945,393	2%	149,969,987	2%
Mining	133,561,039	2%	242,913,081	3%
Health and social organizations	50,939,719	1%	65,447,773	1%
Other	304,001,943	4%	310,519,249	4%
TOTAL	**7,977,768,299**	**100%**	**7,017,636,511**	**100%**

Description of collateral held for loans to customers carried at amortised cost is as follows at 31 December 2022:

In thousands of MNT	**Business Loans**	**Consumer Loans**	**Agricultural Loans**	**Total**
Loans secured by credit enhancements:				
- credit enhancement	-	1,777,104,440	-	1,777,104,440
Loans collateralized by:				
- real estate properties	3,181,167,744	690,189,975	102,226,691	3,973,584,410
- licenses	16,993,309	3,817	-	16,997,126
- vehicles	290,669,184	67,530,827	17,752,076	375,952,087
- equipment	51,897,857	1,384,751	7,582,280	60,864,888
- goods in turnover	182,867,275	769,978	37,113	183,674,366
- cash	2,008,204	289,317,468	70,527	291,396,199
- other	197,700,277	23,584,585	576,232,878	797,517,740
Total	**3,923,303,850**	**2,849,885,841**	**703,901,565**	**7,477,091,256**
Unsecured loans	81,637,229	38,222,556	2,210,863	122,070,648
Total gross carrying value loans and advances to customers	**4,004,941,079**	**2,888,108,397**	**706,112,428**	**7,599,161,904**

Credit enhancements consist of the future income pledged salary loans and pension credit card loans. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured loans. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

12. Loans and advances to customers (Continued)

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

In thousands of MNT	**Business Loans**	**Consumer Loans**	**Agricultural Loans**	**Total**
Loans collateralized by:				
- real estate properties	87,389,608	271,178,513	-	358,568,121
- vehicles	3,083,273	-	-	3,083,273
- equipment	2,795,979	-	-	2,795,979
- goods in turnover	5,490,731	-	-	5,490,731
- other	7,521,974	-	-	7,521,974
Total	**106,281,565**	**271,178,513**	**-**	**377,460,078**
Unsecured loans	494,045	652,272	-	1,146,317
Total carrying value loans and advances to customers	**106,775,610**	**271,830,785**	**-**	**378,606,395**

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

In thousands of MNT Tugriks	**Business Loans**	**Consumer Loans**	**Agricultural Loans**	**Total**
Loans collateralized by:				
- real estate properties	2,722,467,901	494,140,725	56,192,468	3,272,801,094
- licenses	13,583,072	10,121	-	13,593,193
- vehicles	326,987,604	91,930,805	19,703,233	438,621,642
- equipment	53,467,809	1,446,612	5,810,640	60,725,061
- goods in turnover	182,996,779	990,798	111,795	184,099,372
- cash	660,907	219,001,074	543,373	220,205,354
- other	259,180,346	14,685,832	509,964,468	783,830,646
- credit enhancement	-	1,316,461,640	-	1,316,461,640
Total	**3,559,344,418**	**2,138,667,607**	**592,325,977**	**6,290,338,002**
Unsecured loans	144,236,642	21,127,843	1,618,155	166,982,640
Total carrying value loans and advances to customers	**3,703,581,060**	**2,159,795,450**	**593,944,132**	**6,457,320,642**

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

In thousands of MNT	**Business Loans**	**Consumer Loans**	**Agricultural Loans**	**Total**
Loans collateralized by:				
- real estate properties	246,878,064	284,144,073	-	531,022,137
- licenses	-	-	-	-
- vehicles	6,956,560	-	-	6,956,560
- equipment	2,344,769	-	-	2,344,769
- goods in turnover	3,932,368	-	-	3,932,368
- cash	-	-	-	-
- other	11,015,873	-	-	11,015,873
- credit enhancement	-	-	-	-
Total	**271,127,634**	**284,144,073**	**-**	**555,271,707**
Unsecured loans	3,938,692	1,105,470	-	5,044,162
Total carrying value loans and advances to customers	**275,066,326**	**285,249,543**	**-**	**560,315,869**

12. Loans and advances to customers (Continued)

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

	Over-collateralised assets		Under-collateralised Assets	
In thousands of MNT	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
31 December 2022				
Business loans	283,904,467	1,098,280,770	15,953,858	9,453,717
Consumer loans	81,600,344	283,112,672	34,577,816	8,538,040
Agricultural loans	4,554,270	63,134,795	44,877	7,350
31 December 2021				
Business loans	184,517,341	697,762,440	60,533,501	10,322,669
Consumer loans	90,304,667	297,429,585	33,461,808	8,609,398
Agricultural loans	1,293,760	9,150,258	30,420	2,000

Transferred financial assets that are derecognised in their entirety

During the year the Bank sold 100% of its rights to the cash flows arising on portfolios of fixed rate mortgage loans to wholly owned special purpose companies of MIK Holding JSC (“MIK”) in exchange for Residential Mortgage Backed Securities (“RMBS”). The Bank derecognised loan portfolios amounting to MNT 173,674,600 thousand (31 December 2021: MNT 73,968,100 thousand) and recognised Senior and Junior RMBS as financial assets amounting to MNT 156,306,800 thousand and MNT 17,367,800 thousand respectively (31 December 2021: MNT 66,571,000 thousand and MNT 7,397,100 thousand respectively).

During the year the Bank sold 100% of its rights of the cash flows arising on loan portfolios to wholly owned special purpose companies of Securities Financing Corporation in exchange for asset backed securities. The Bank derecognised loan portfolios amounting to MNT 170,059,600 thousand and recognised Senior and Junior SFC bonds as financial assets amounting to MNT 153,053,600 thousand and MNT 17,006,000 thousand respectively.

Loans and advances to customers at FVTPL

As at 31 December 2022, the Bank holds mortgage portfolio of loans and advances to customers in amount of MNT 271,830,785 thousand and SME loan portfolio in amount of MNT 106,775,610 thousand classified as FVTPL.

13. Other assets

In thousands of MNT	**31 December 2022**	**31 December 2021**
Other financial assets at FV		
Precious metals	-	21,768,134
Total other financial assets at FV	**-**	**21,768,134**
Other financial assets at AC		
Receivable from companies*	28,290,592	23,764,724
Receivable from individuals	2,308,325	1,755,051
Receivable on settlement service	720,036	826,311
Other financial assets	161,178	100,946
Less: Credit loss allowance	(28,777,085)	(23,562,969)
Total other financial assets at AC	**2,703,046**	**2,884,063**
Total other financial assets	**2,703,046**	**24,652,197**
Other non-financial assets		
Deferred employee benefits**	42,599,476	40,710,489
Prepaid expenses	13,154,824	-
Prepayments for non-current assets	10,310,228	-
Repossessed collaterals	383,822	462,634
Office supplies and materials	4,495,841	4,449,030
Other prepayments	3,098,028	8,283,114
Total non-financial assets	**74,042,219**	**53,905,267**
Less: provision for repossessed collaterals	(383,822)	(462,634)
Total other non-financial assets	**73,658,397**	**53,442,633**
Total other assets	**76,361,443**	**78,094,830**

*Receivable from companies include counter-guarantee receivable from Industrial and Commercial Bank of China (ICBC) in relation to guarantee issued to Ministry of Road and Transport Development of Mongolia amounting to MNT 26,339,300 thousand (31 December 2021: 21,783,487 thousand). The Bank was not able to activate the guarantee provided by ICBC, therefore initiated a lawsuit. The case is currently at Supreme Court in China and the Bank has recognized 100% provision for the receivable.

As of 31 December 2022, above mentioned receivable from ICBC is in Stage 3, and the remaining other asset balances are classified as in Stage 1.

**The Bank issues loans to its employees at preferential rates. Fair value adjustments at initial recognition were recognised as deferred employee benefits and are amortised according to the terms of the loan.

13. Other assets (Continued)

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

In thousands of MNT	31 December 2022	31 December 2021
Impairment allowance on other receivables		
At 1 January	**23,562,969**	**4,375,636**
Charge for the year	878,205	19,461,141
Reversal	(4,857)	(257,859)
Net charge for the year (Note 28)	**873,348**	**19,203,282**
Write off	(405,684)	-
Foreign exchange difference	4,746,452	(15,949)
At 31 December	**28,777,085**	**23,562,969**
Impairment allowance on foreclosed properties		
At 1 January	**462,634**	**975,150**
Net (reversal)/charge for the year (Note 28)	(78,812)	5,985
Write off	-	(518,501)
At 31 December	**383,822**	**462,634**

14. Property and equipment

In thousands of MNT	Land and buildings	Computer hardware	Office furniture, equipment, and motor vehicles	Construction-in -progress	Total
At 31 December 2022					
At cost/valuation					
At 1 January 2022	**289,372,721**	**262,676,600**	**64,058,288**	**17,421,799**	**633,529,408**
Additions	-	41,735,637	10,947,682	4,243,415	56,926,734
Transfer	12,857,323	-	-	(12,857,323)	-
Disposals	(372,236)	(224,795)	(864,719)	(1,432,532)	(2,894,282)
Write-offs	(12,215)	(11,017,047)	(4,271,538)	(137,645)	(15,438,445)
At 31 December 2022	**301,845,593**	**293,170,395**	**69,869,713**	**7,237,714**	**672,123,415**
Accumulated depreciation					
At 1 January 2022	**6,173,605**	**142,338,827**	**29,421,884**	**-**	**177,934,316**
Charge for the year (Note 30)	5,954,516	41,716,042	6,818,705	-	54,489,263
Disposals	(89,413)	(208,578)	(807,029)	-	(1,105,020)
Write-offs	(3,893)	(10,976,338)	(3,708,659)	-	(14,688,890)
At 31 December 2022	**12,034,815**	**172,869,953**	**31,724,901**	**-**	**216,629,669**
Net carrying amount	**289,810,778**	**120,300,442**	**38,144,812**	**7,237,714**	**455,493,746**

In thousands of MNT	Land and buildings	Computer hardware	Office furniture, equipment, and motor vehicles	Construction-in -progress	Total
At 31 December 2021					
At cost/valuation					
At 1 January 2021	**274,270,032**	**242,549,519**	**61,681,987**	**28,042,268**	**606,543,806**
Additions	–	34,570,797	5,780,649	5,390,137	45,741,583
Transfer	15,616,891	–	–	(15,616,891)	–
Disposals	(506,657)	(1,049,180)	(1,091,853)	–	(2,647,690)
Write-offs	(7,545)	(13,394,536)	(2,312,495)	(393,715)	(16,108,291)
At 31 December 2021	**289,372,721**	**262,676,600**	**64,058,288**	**17,421,799**	**633,529,408**
Accumulated depreciation					
At 1 January 2021	**659,389**	**114,186,333**	**25,769,914**	**–**	**140,615,636**
Charge for the year (Note 30)	5,530,909	42,463,109	6,374,833	–	54,368,851
Disposals	(14,764)	(1,033,534)	(916,142)	–	(1,964,440)
Write-offs	(1,929)	(13,277,081)	(1,806,721)	–	(15,085,731)
At 31 December 2021	**6,173,605**	**142,338,827**	**29,421,884**	**–**	**177,934,316**
Net carrying amount	**283,199,116**	**120,337,773**	**34,636,404**	**17,421,799**	**455,595,092**

Land and buildings are carried at fair value. Had these buildings been recognised under the cost model as at 31 December 2022, the carrying amount of land and buildings would have been MNT 206,916,085 thousand (2021: MNT 210,861,711 thousand). As at 31 December 2022, the Bank had contractual commitments to acquire property and equipment of MNT 2,585,144 thousand (2021: MNT 13,019,052 thousand).

15. Intangible assets

In thousands of MNT	Computer software	Assets under development	Total
At 31 December 2022			
At cost			
At 1 January 2022	**100,980,472**	**11,033,072**	**112,013,544**
Additions	6,535,092	9,979,359	16,514,451
Transfer	21,012,431	(21,012,431)	-
Write-offs	(35,415,532)	–	(35,415,532)
At 31 December 2022	**93,112,463**	–	**93,112,463**
Amortisation			
At 1 January 2022	**57,248,741**	**–**	**57,248,741**
Charge for the year (Note 30)	20,643,564	–	20,643,564
Write-offs	(31,065,866)	–	(31,065,866)
At 31 December 2022	**46,826,439**	**–**	**46,826,439**
Net carrying amount	**46,286,024**	**–**	**46,286,024**

Intangible assets comprising software and licenses with the cost of MNT 35,415,532 thousand and accumulated amortisation of MNT 31,065,865 thousand have been written-off during the year as the Bank had stopped using these assets.

In thousands of MNT	Computer software	Assets under development	Total
At 31 December 2021			
At cost			
At 1 January 2021	**81,907,826**	**9,447,298**	**91,355,124**
Additions	–	21,749,042	21,749,042
Reclassification	20,163,268	(20,163,268)	–
Write-offs	(1,090,622)	–	(1,090,622)
At 31 December 2021	**100,980,472**	**11,033,072**	**112,013,544**
Amortisation			
At 1 January 2021	**40,636,320**	**–**	**40,636,320**
Charge for the year (Note 30)	17,703,043	–	17,703,043
Write-offs	(1,090,622)	–	(1,090,622)
At 31 December 2021	**57,248,741**	**–**	**57,248,741**
Net carrying amount	**43,731,731**	**11,033,072**	**54,764,803**

16. Right-of-use assets and lease liability

In thousands of MNT	**Right-of-use assets**	**Lease liabilities**
As at 1 January 2022	**10,086,653**	**11,085,695**
Additions	7,740,030	7,778,978
Depreciation expense (Note 30)	(7,623,736)	–
Interest expense (Note 25)	–	1,798,399
Payments	–	(9,431,823)
As at 31 December 2022	**10,202,947**	**11,231,249**
As at 1 January 2021	**7,362,765**	**7,960,407**
Additions	10,235,323	10,235,323
Depreciation expense (Note 30)	(7,511,435)	–
Interest expense (Note 25)	–	1,412,573
Payments	–	(8,522,608)
As at 31 December 2021	**10,086,653**	**11,085,695**

The maturity analysis of lease liabilities are disclosed in Note 39.

The Bank leases various spaces for branch offices. Rental contracts are typically made for fixed periods of 1 year to 3 years.

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

In thousands of MNT	**2022**	**2021**
Interest expenses on lease liabilities	1,798,399	1,412,573
Depreciation charge of right-of-use assets	7,623,736	7,511,435
Expenses relating to short-term leases	1,543,698	1,127,654
Variable lease payments that do not depend on index or rates (Utility expense of Operating expenses)	1,081,451	849,510
Total	**12,047,284**	**10,901,172**

17. Non-current assets classified as held for sale

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

In thousands of MNT	**31 December 2022**	**31 December 2021**
Office and commercial spaces	3,480,567	–
Total	**3,480,567**	**–**

During the year, MNT 3,480,567 thousand of assets were transferred from repossessed collateral to non-current assets held for sale.

18. Due to banks

In thousands of MNT	**31 December 2022**	**31 December 2021**
Current accounts from banks and financial institutions	15,884,992	29,305,283
Time deposits from banks and financial institutions	175,195,290	4,687,193
Others	-	1,861,804
Total	**191,080,282**	**35,854,280**

18. Due to banks (Continued)

At 31 December 2022 and 2021, due to banks included time deposit with foreign banks, with interest rates ranging from 0.50% to 1.00% p.a. for deposits denominated in USD and 12.00% to 13.00% p.a. for deposits denominated in MNT (2021: 10.40% p.a. for deposit denominated in RUB) and original maturity from 3 to 28 days (2021: 89 days).

19. Repurchase agreements

Included in the balance as at 31 December 2022 was short-term repurchase agreement which the Bank entered with the BoM on 30 December 2022 with amount of MNT 60,230,043 thousand and sold an equal amount of unquoted BoM bills. The agreement bears annual interest of 15% and which shall mature on 02 January 2023.

The remaining relates to long-term repurchase agreement with the BoM amount of MNT 307,037,286 thousand bearing interest rate ranging from 6% to 10.5% p.a. (2021: 6% to 6.5% p.a.) with original maturities of 730 days. The agreements were conducted under government program aimed to mitigate the adverse effect of the pandemic to the economy, based on which the Bank shall disburse SME loans to eligible customers (Note12) and shall sell these loans to wholly owned special purpose companies of Securities Financing Corporation LLC in return for Asset backed bonds.

Both long and short-term repurchase agreements are fully collateralized by the Bank of Mongolia treasury bills disclosed in Note 7 and Note 9.

20. Customer accounts

In thousands of MNT	**31 December 2022**	**31 December 2021**
Government deposits		
– Current accounts	1,121,728,152	324,496,043
– Time deposits	50,728,680	25,792,202
Private sector deposits		
– Current accounts	1,781,408,671	1,499,723,875
– Demand deposits	-	2,572
– Time deposits	375,005,500	432,621,764
– Deposits as collateral	26,265,979	26,756,455
Individual deposits		
– Current accounts	1,798,621,925	1,260,543,821
– Demand deposits	1,155,771,758	1,763,179,261
– Time deposits	4,621,257,691	4,878,334,734
Total	**10,930,788,356**	**10,211,450,727**

21. Other borrowed funds

In thousands of MNT	**31 December 2022**	**31 December 2021**
Borrowed funds from foreign financial institutions		
The Netherlands Development Finance Company (FMO) and syndication arranged by FMO	522,600,605	367,696,495
BlueOrchard	151,534,935	67,431,708
European Bank for Reconstruction and Development (EBRD)	120,323,490	41,193,766
ResponsAbility AG	89,436,918	42,500,122
Oesterreichische Entwicklungsbank (OeEB)	84,169,703	–
Symbiotics SA	83,041,504	67,250,935
Promissory notes	62,367,927	50,391,651
Incofin	61,963,469	51,092,578
HS Holding Co.Ltd (previously Sawada Holdings Co.Ltd)	60,173,259	77,889,459
Developing World Markets	41,198,363	–
GLS Alternative investments	33,612,020	27,671,080
Bank im Bistum Essen EG	19,207,271	15,763,096
Total borrowed funds from foreign financial Institutions	**1,329,629,464**	**808,880,890**
Borrowed funds from government organizations		
Bank of Mongolia	344,764,370	277,562,132
Ministry of Finance/Japan Bank for International Cooperation	32,954,063	32,814,919
Ministry of Finance - Asian Development Bank	29,545,540	23,647,387
Ministry of Food, Agriculture and Light Industry	9,808,986	15,241,098
Ministry of Finance - other	5,714,715	3,994,436
Ministry of Labour and Social Welfare - Small Loan supporting the Labour market	5,048,658	4,043,658
Government projects	1,101,127	881,456
Education Loan Fund under Ministry of Education, Culture, Science and Sports	214,947	426,781
Other government organizations	168,337	168,337
Development Bank of Mongolia	–	1,980,213
Other project	708,323	574,412
Total borrowed funds from government organizations	**430,029,066**	**361,334,829**
Trade finances	17,274,187	21,701,227
Total borrowed funds	**1,776,932,717**	**1,191,916,946**

Borrowed funds from foreign financial institutions

1. Syndicated term loan arranged by FMO (Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V.)

On 20 September 2021, the Bank entered into a USD 120 million Syndicated Term Facility Agreement with FMO (Dutch Development Bank), Proparco (France's development finance institution), DEG (German Investment Corporation) and IIB (International Investment Bank). The syndicated facility is comprised of USD 70 million and USD 50 million facilities with five and seven-year tenors respectively. The facilities have a grace period of 2 years and equal amortizing repayments thereafter and shall mature on 15 September 2026 and 15 September 2028, respectively. The purpose of the loan is to finance SMEs and green loans in Mongolia, and for general corporate purposes as well. The Bank obtained the first tranche of USD 60 million on 20 October 2021 and the second tranche of USD 60 million on 28 October 2022.

21. Borrowed funds (Continued)

Borrowed funds from foreign financial institutions (Continued)

2. BlueOrchard

The Bank obtained USD 20 million from BlueOrchard Microfinance Fund on 29 July, 2022, under the Loan Agreement concluded on 25 July, 2022. The purpose of the loan is to support micro, small and medium enterprises in Mongolia. The loan has a floating interest rate, a 2-year grace period followed by 4 scheduled repayments and shall mature on 29 July 2027.

The Bank entered into a USD 6.5 million loan agreement with InsuResilienceInvestment Fund (IIF), a fund managed by BlueOrchard, on 4 August, 2022. The purpose of the IIF loan is to support herder loans with index-based livestock insurance. The loan has a floating interest rate, 5-year grace period followed by 3 scheduled repayments and shall mature on 25 June, 2029. The Bank obtained the first tranche of USD 3 million on 10 August 2022 and the second tranche of USD 3.5 million on 30 September 2022.

3. European Bank for Reconstruction and Development (EBRD)

On 19 October 2022, the Bank entered into loan agreement of USD 70 million with EBRD. The purpose of the loan is to finance eligible green loan projects (USD 60 million) and loans supporting women owned/led MSMEs (USD 10 million). The first tranche of USD 35 million was disbursed on 02 December 2022. The facilities have floating interest rates and shall mature on 30 November 2026 and 30 November 2028 respectively.

4. responsibility AG

The Bank obtained USD 8 million as a Facility B from Global Climate Partnership Fund, managed by responsAbility Investments AG, on 29 June 2022, under the Facility Agreement concluded on 11 June 2021. The purpose of the loan is to support renewable energy and energy efficiency projects in Mongolia. The loan has a floating interest rate and grace period of 14 months, followed by 3 scheduled repayments and shall mature on 17 June 2025.

5. Oesterreichische Entwicklungsbank (OeEB)

The Bank obtained USD 20 million from OeEB, the Development Bank of Austria on 7 February 2022, in accordance with the Term Facility Agreement signed on 16 December 2021. The purpose of the loan is to support micro, small and medium enterprises, in particular, 50% of the proceeds will be used towards clients in rural area. The loan has a floating interest rate, with a, grace period of 1.5 years and equal amortizing repayments thereafter and shall mature on 30 November 2029.

6. Promissory notes

The Bank issued Promissory notes to three funds managed by Symbiotics SA, and obtained total amount of USD 4.75 million on 18 July 2022. The purpose of the funds is to support micro, small and medium enterprises in Mongolia. The loan has floating interest rate, with a bullet repayment and shall mature on 18 July 2025.

The Bank issued Promissory note to Symbiotics Sicav (Lux), a fund managed by Symbiotics SA, and obtained USD 4 million on 28 July 2022. The purpose of the loan is to support micro, small and medium enterprises in Mongolia. The loan has floating interest rate, with a bullet repayment and shall mature on 19 May 2025.

The Bank issued Promissory note to Symbiotics Sicav (Lux), a fund managed by Symbiotics SA, and obtained USD 3 million on 30 August 2022. The purpose of the loan is to support micro, small and medium enterprises in Mongolia. The loan has floating interest rate, with a bullet repayment and shall mature on 17 July 2024.

7. Developing World Markets

On 28 November 2022, the Bank obtained USD 12 million from 2 funds managed by DWM, Developing World Markets, in accordance with the Loan Agreements signed on 22 November 2022. The purpose of the loan is to support micro, small and medium enterprises. The loan has floating interest rate, with a grace period of 2 years, followed by 2 scheduled repayments thereafter and shall mature on 28 November 2025.

8. Repayments

During the year, the Bank made principal payments of USD 82.3 million in senior loans and promissory notes in accordance with the repayment schedules as per respective loan agreements and promissory note agreements.

21. Borrowed funds (Continued)

Borrowed funds from foreign financial institutions (Continued)

Trade finances

During the period, repayment of MNT 39,782 million were made and additional funding of MNT 30,149 million was received. Trade finances are all denominated in foreign currencies, mainly in USD and EUR and bear annual interest rates ranging between base rate plus margin of 0.60% to 5.96% per annum and have maturity dates of up to 7 years.

Borrowed funds from government organizations

In relation to loans obtained from government organizations, following major repayments were made and new funding was received during the period ended 31 December 2022:

Bank of Mongolia

Mortgage funding program

Under the Mortgage funding program, the Bank receives funding from BoM, which bears interest rate of 1% - 4% p.a. and the Bank then issues mortgage loans at the interest rate of 6% p.a. As of 31 December 2022, the Bank received additional mortgage loan funding in amount of MNT 163,285,112 thousand.

Germany KfW bank's project loan for SME development

On April 2002, the Government of Mongolia and Germany KfW bank entered into Loan Agreements for Development of SMEs in manufacturing, agriculture and support of financial sector. As part of this agreement, the Bank and Bank of Mongolia signed a Loan Agreement on 16 September 2020, the Bank obtained funds totalling to MNT 3.2 billion. The loan bears annual interest rate of 5% and the outstanding balance as of 31 December 2022 was MNT 1.8 billion.

Fuel reserve loan

Project loan for fuel reserve is being implemented in cooperation with Bank of Mongolia and Ministry of Mining and Heavy Industry, and Master Agreement was concluded in September 2022. In accordance with CRO Resolution No.05/301, refinancing loans for fuel reserve purposes will be disbursed. The loan bears annual interest rate of 6% and the outstanding balance as of 31 December 2022 was MNT 110.9 billion. The funds shall mature in December 2023.

Fuel advance payment loan.

Project loan for fuel advance payment is being implemented in cooperation with Bank of Mongolia and Ministry of Mining and Heavy Industry, and Master Agreement was concluded in April 2022. In accordance with CRO Memo No.05/10, refinancing loans for fuel reserve purposes will be disbursed. The funds shall mature in December 2023.

Gold-2 program project loan

Project loan for Gold-2 program */Advance payment and long term/* is being implemented in cooperation with Bank of Mongolia, Master Agreement was concluded in June 2020. The advance payment loan was matured in December 2022, the long term financing loan project has 3 loaners remained and the last loan shall mature in September 2025.

Ministry of Finance/Japan Bank for International Cooperation

In accordance with Appendix 1 of the loan agreement entered between the Government of Mongolia and Japan International Cooperation Agency (JICA), JICA agreed to lend JPY 5 billion for purpose of financing the "Two–Step Loan Project for Small and Medium Scaled Enterprises Development and Environmental Protection". As part of this agreement, the Bank had received MNT 77,423 million and USD 3.2 million in total on 14 May 2007. For MNT loans, annual interest rate equals to previous 12 month's average demand deposit interest rate for commercial banks announced by Bank of Mongolia and for USD loans, equivalent to USD 6 month Libor rate plus margin 1%. As of 31 December 2022, the loans had outstanding balances of MNT 32,954 million (2021: MNT 33,815 million). The MNT funds shall mature in 2030.

21. Borrowed funds (Continued)

Borrowed funds from government organizations (Continued)

Ministry of Finance - Asian Development Bank

Agriculture and Rural Development Project (ADB)
On 28 October 2015, the Government of Mongolia and ADB entered into Additional Financing Agreements no.3287 MON and 3288 MON (SF) for Agriculture and Rural Development Project. As part of this additional agreement, the Bank and MOF signed a Financing Loan Agreement on 5 May 2016 and as of reporting date, the Bank obtained funds totalling to MNT 33,836 million, which has been disbursed as loans for production of agricultural goods. The loan bears annual interest rate of 4.5% and the outstanding balance as of 31 December 2022 was MNT 25,524 million.

Credit guarantee fund of Mongolia
The Bank signed a 'Credit guarantee general agreement' with Credit Guarantee fund of Mongolia to implement a "To diversify the economy and increase employment by improving credit guarantee system" project loan of Asian development bank. Under the project loan, the Bank received MNT 2.9 billion project loan and the funding cost is 5% per annum. As of 31 December 2022, the outstanding balance was MNT 3.938 billion. The funds shall mature in June 2030.

Ministry of Labor and Social Welfare – Employment Support Fund

(i) *Small loan to support labour market*
The Bank signed the "Agreement to disburse small SME loans under the Pilot labour market support program" with the General Authority of Labour and Social Welfare on 10 October 2019. The funding cost is 3.3% per annum. As of 31 December 2021, the outstanding is MNT 4.01 billion. The funds shall mature in October 2023.

(ii) *Small Loan to supporting the Labour market*
The Bank signed the "Agreement to disburse small SME loans under the Pilot labour market support program" with the General Authority of Labour and Social Welfare on 22 October 2020. The funding cost is 6.77% per annum. As of 31 December 2022, the outstanding is MNT 0.586 billion. The funds shall mature in October 2024.

Ministry of Food, Agriculture and Light Industry

Long term soft loan of SME Development Fund
The Bank signed a "General term and cooperation agreement" with the Ministry of Food, Agriculture and Light Industry on 2 August 2019. Under the project, the Bank received MNT 21 billion project loan and the funding cost is 1.8% per annum. As of 31 December 2021, the outstanding balance is MNT 9.7 billion. The funds shall mature in April 2025.

Market and and Pasture management development

The Bank signed a "Cooperation agreement" with the International Fund for Agricultural Development and Ministry of Finance on 15 May 2020. Under the project, the Bank received MNT 2.7 billion project loan and the funding cost is 5% per annum. As of 31 December 2022, the outstanding balance is MNT 4.1 billion. The funds shall mature in May 2025.

All borrowings are unsecured.

Most of the borrowing agreements require compliance with certain debt covenants, which can be grouped into the following categories:

- capital related ratios (such as risk weighted capital adequacy tier 1 capital ratio);
- financial risks related ratios (such as single and aggregate foreign currency open position, liquidity ratio, and interest coverage ratio);
- credit related ratios (such as single largest borrowers to the equity ratio, related party lending ratio and aggregate large exposures ratio, non-performing loans to total loan ratio, open loan exposure ratio and write off ratio);
- other ratios (cost to income ratio, loan to deposit ratio, Min ROA, and Min ROE).

22. Other liabilities

In thousands of MNT	**31 December 2022**	**31 December 2021**
Other financial liabilities:		
Payables and accrued expenses	34,910,447	31,887,840
Liabilities for settlement of transactions	58,248,972	19,563,551
Temporary card payables	35,796,352	33,486,434
Allowance for off balance commitments (Note 35)	6,206,949	5,874,105
Other non-financial liabilities:		
Salary payables	10,066,639	9,066,673
Tax payables other than income tax	937,273	852,491
Deferred revenue	316,577	30,000
Total other liabilities	**146,483,209**	**100,761,094**

Delay on clearing settlement account and temporary card payables are mainly related to the amount of payables on cash and settlements services. Related balances were settled on next working day.

23. Share capital, other reserves and dividends

Share Capital

	Number of shares authorised, issued and fully paid		*In thousands of MNT*	
	31 December 2022	**31 December 2021**	**31 December 2022**	**31 December 2021**
Total Ordinary shares	1,720,978,200	172,097,820	172,097,820	172,097,820
Net shares at year end	**1,720,978,200**	**172,097,820**	**172,097,820**	**172,097,820**

The table below shows movement of the ordinary and treasury shares in 2022 and 2021:

	Ordinary shares	**Treasury shares**	**Ordinary shares**	**Treasury shares**
	Number of shares		***In thousands of MNT***	
At 1 January 2022	**172,097,820**	–	**172,097,820**	–
Share split (10-for-1)	1,548,880,380	–	–	–
At 31 December 2022	**1,720,978,200**	–	**172,097,820**	–
At 1 January 2021	**6,599,006**	**862,412**	**58,071,253**	**7,589,226**
Cancellation of treasury shares	(862,412)	(862,412)	(7,589,226)	(7,589,226)
Par value increase	–	–	121,615,793	–
Share split (30-for-1)	166,361,226	–	–	–
At 31 December 2021	**172,097,820**	–	**172,097,820**	–

On 1 September 2021, BoM has approved the request from the Bank of cancelling all treasury shares.

On 9 September 2021, BoM has approved the request of the Bank to increase the par value of its ordinary shares from MNT 8,800 to MNT 30,000 from the Bank's retained earnings, resulting in a net reduction in retained earnings of MNT 141,808,605 thousand including the related withholding tax effect.

On 11 October 2021, BoM has approved the request of the Bank to make share split of 30-for-1, resulting that number of ordinary shares increased from 5,736,594 to 172,097,820. The par value of its ordinary shares was reduced accordingly from MNT 30,000 to MNT 1,000.

23. Share capital, other reserves, and dividends (Continued)

As a result of the above, the following transactions took place as approved by the BOM during 2021:

1. The Bank cancelled its treasury shares, resulting a decrease in treasury shares of MNT 7,589,226 thousand and a net reduction in ordinary shares of same amount.
2. The Bank increased the par value of its ordinary shares from MNT 8,800 to MNT 30,000 from the Bank's retained earnings, resulting in a net increase in ordinary shares of MNT 121,615,793.
3. The Bank performed share split of 30-for-1, resulting in a net increase in the number of ordinary shares of 166,361,226 and the par value per share was reduced to MNT 1,000 from MNT 30,000.

As approved by the Bank of Mongolia on 18 June 2021, the Bank distributed dividend to the shareholders in amount of MNT 200,000,000 thousand.

On 07 June 2022, BoM has approved the request of the Bank to make share split of 10-for-1, resulting that number of ordinary shares increased to total of 1,720,978,200 with par value of MNT 100.

As approved by the Bank of Mongolia on 07 July 2022, the Bank distributed dividend to the shareholders in amount of MNT 200,149,765 thousand.

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

	31 December 2022	**31 December 2021**
HS Holdings Co. Ltd	45.55%	45.55%
Tavan Bogd Trade Co. Ltd	25.31%	25.31%
Khulan D.	14.69%	14.69%
H.S. International (Asia) Ltd	9.75%	14.45%
Individuals (ESPP)	4.70%	-
Total ordinary shares	**100.00%**	**100.00%**

HS International (Asia) Limited is a 100% subsidiary of HS holdings Co. Ltd domiciled in Hong Kong. On 28 January 2022, BoM approved the Bank's request for change in the Bank's shareholding structure in light of its Employees Share Purchase Program ("ESPP"). As part of the ESPP, the Bank's existing shareholder, HS International (Asia) Ltd., sold a portion of its shares in the Bank to employees of the Bank at market price, i.e at fair value of the shares therefore there were no accounting impact recognized by the Bank. As approved by the BoM, the employees who participated in the ESPP are registered as shareholders of the Bank and the shareholder structure of the Bank has changed accordingly.

Other reserves

In thousands of MNT	**Cash flow hedge reserve**	**FVTOCI reserve**	**Asset revaluation reserve**	**Total other reserves**
At 31 December 2022				
At 1 January 2022	(1,670,161)	5,564,266	90,384,720	94,278,825
Depreciation	–	–	(2,000,622)	(2,000,622)
Unrealised loss on FVTOCI investments	–	(12,022,518)	–	(12,022,518)
Fair value gain on hedging instruments (Note 11)	81,958,751	–	–	81,958,751
Revaluation on hedging instrument reclassified to profit or loss against hedged item	(94,832,472)	–	–	(94,832,472)
Net realised loss reclassified to profit or loss	1,207,248	–	–	1,207,248
Deferred tax asset recognised in OCI (Note 31.2)	2,916,619	3,005,629	–	5,922,248
Net movement to other comprehensive income	(8,749,854)	(9,016,889)	(2,000,622)	(19,767,365)
At 31 December 2022	**(10,420,015)**	**(3,452,623)**	**88,384,098**	**74,511,460**

23. Share capital, other reserves, and dividends (Continued)

In thousands of MNT	**Cash flow hedge reserve**	**FVTOCI reserve**	**Asset revaluation reserve**	**Total other reserves**
At 31 December 2021				
At 1 January 2021	6,791,008	13,140,012	92,638,403	112,569,423
Amortisation	–	–	(2,253,683)	(2,253,683)
Unrealised loss on FVTOCI investments	–	(10,100,994)	–	(10,100,994)
Fair value loss on hedging instrument (Note 11)	(11,233,271)	–	–	(11,233,271)
Revaluation on hedging instrument reclassified to profit or loss against hedged item	121,608	–	–	121,608
Net realised loss reclassified to profit or loss	(169,896)	–	–	(169,896)
Deferred tax asset recognised in OCI (Note 31.2)	2,820,390	2,525,248	–	5,345,638
Net movement to other comprehensive income	(8,461,169)	(7,575,746)	(2,253,683)	(18,290,598)
At 31 December 2021	**(1,670,161)**	**5,564,266**	**90,384,720**	**94,278,825**

24. Interest and similar income

In thousands of MNT	**2022**	**2021**
Interest income calculated using the effective interest method		
Loans and advances to customers	1,073,427,355	848,640,512
Cash and cash equivalent	204,955,610	236,116,893
Debt instruments at AC	40,739,993	42,679,618
Debt instruments at FVTOCI	8,268,189	10,327,272
Due from banks	-	2,187,341
Total interest income calculated using the effective interest method	**1,327,391,147**	**1,139,951,636**

Other similar interest income

In thousands of MNT	**2022**	**2021**
Loans and advances to customers at FVTPL	22,634,596	26,166,587
Debt instruments at FVTPL	17,339,939	12,650,715
Total other similar interest income	**39,974,535**	**38,817,302**

25. Interest and similar expense

In thousands of MNT	**2022**	**2021**
Customer accounts	368,195,946	452,518,952
Borrowed funds	73,123,072	45,930,148
Due to banks	27,636,217	36,154,030
Interest expense of hedge eligible swaps	6,915,692	7,702,508
Total interest expense	**475,870,927**	**542,305,638**

25. Interest and similar expense (Continued)

Other similar interest expense

In thousands of MNT	2022	2021
Interest expense on hedge non-eligible swaps	3,414,988	473,771
Lease liability	1,798,399	1,412,573
Total other similar interest expense	**5,213,387**	**1,886,344**

26. Net fees and commission income

In thousands of MNT	2022	2021
Fees and commission income		
Commissions on operations with plastic cards	129,002,513	105,762,601
Commissions on mobile and internet services	110,782,991	85,574,485
Commissions on settlement transactions	13,467,905	12,425,951
Commissions on documentary business and guarantees	3,419,825	3,014,109
Commissions on cash operations	2,359,702	705,300
Commissions on transfer payments	305,274	292,944
Other	4,128,433	4,311,017
Total fees and commission income	**263,466,643**	**212,086,407**
Fees and commission expenses		
Commission on mobile services	22,950,674	18,456,766
Commissions on operations with plastic cards	16,972,997	11,522,425
Commissions on settlement transactions	6,833,556	4,162,119
Commissions on foreign exchange operations	1,030,614	704,728
Commissions on risk participation	-	1,088,252
Total fees and commission expenses	**47,787,841**	**35,934,290**
Net fees and commission income	**215,678,802**	**176,152,117**

27. Net gain/(losses) from financial derivatives

In thousands of MNT	2022	2021
Net realised loss on hedging	(1,268,618)	(230,192)
Ineffectiveness of hedging	15,273,535	929,888
Fair value change of swaps, not hedged	1,873,472	(902,073)
Total net gain from financial derivatives	**15,878,389**	**(202,377)**

28. Credit loss allowance

The table below shows the ECL charges/(reversals) on financial assets and liabilities for the year recorded in profit or loss:

In thousands of MNT	**2022**	**2021**
Net charge/(reversal) for ECL allowance:		
Cash and cash equivalents (Note 7)	931,403	113,958
Mandatory reserves with the BoM (Note 8)	1,969,109	607,059
Due from other banks	-	(1,921,474)
Loans and advances to customers (Note 12)	138,534,121	64,813,558
Debt instrument measured at AC (Note 9)	2,640,432	3,675,255
Debt instrument measured at FVTOCI (Note 9)	(1,767,018)	227,861
Off balance sheet commitments (Note 35)	332,843	1,093,956
Other assets (Note 13)	873,348	19,203,282
Total ECL allowance	**143,514,238**	**87,813,455**
Net charge/(reversal) for other financial asset		
Repossessed collaterals (Note 13)	(78,812)	5,985
Total	**(78,812)**	**5,985**

29. Losses from financial assets at fair value through profit or loss

In thousands of MNT	**2022**	**2021**
Fair value changes of MIK loans	9,019,495	6,444,501
Fair value changes of financial investments at FVTPL	-	2,327,236
Total losses from financial assets at FVTPL	**9,019,495**	**8,771,737**

The Government of Mongolia has imposed measures to ease the credit pressure on consumers and businesses due to the Covid-19 outbreak. The measures include loan payment holiday to borrowers, particularly government funded mortgage loans in relation to the mortgage funding program which resulted to decrease of fair value of such mortgage loan portfolio measured at FVTPL.

30. Operating expenses

In thousands of MNT	**2022**	**2021**
Salaries, wages, and bonuses	138,612,201	111,883,783
Equipment repair and maintenance expense	63,705,516	56,251,238
Depreciation of property and equipment (Note 14)	54,489,263	54,368,851
Amortisation of intangible assets (Note 15)	20,643,564	17,703,043
Deposit insurance fee	18,676,189	20,428,529
Contribution to social and health fund	16,948,218	12,513,796
Premises repair and maintenance expense	16,020,919	11,759,264
Marketing and advertisement expenses	8,808,130	6,865,509
Office materials and supplies	8,719,117	7,212,918
Depreciation of right of use assets (Note 16)	7,623,736	7,511,435
Taxes other than income tax	6,087,663	2,553,539
Security services	5,768,829	6,486,840
Contribution to deposit stabilization fund	3,687,185	–
Transportation	3,650,044	2,198,026
Research expenses	3,394,837	1,305,777
Information and telecommunication services	3,224,255	2,639,263
Professional services	2,698,269	4,131,625
Events	2,185,960	1,216,125
Training expenses	1,648,789	1,491,360
Business trip expenses	1,623,042	621,257
Insurance	1,571,307	1,506,295
Short term-lease expense	1,543,698	1,160,857
Other	20,712,474	16,367,852
Total	**412,043,205**	**348,177,182**

In thousands of MNT	**2022**	**2021**
Contribution to social and health fund costs consist of:		
Contribution to state social and health fund	5,423,430	4,004,415
Contribution to state pension fund	11,524,788	8,509,381
Total	**16,948,218**	**12,513,796**

31. Income tax

31.1 Income tax expense

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

In thousands of MNT	2022	2021
Current tax:		
Current income tax	136,009,119	92,571,808
Deferred tax:		
Relating to temporary differences and tax losses	6,051,906	2,458,192
Total income tax expense	**142,061,025**	**95,030,000**

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% for the first MNT 6 billion (2021: 6,000,000 thousand) of taxable income and 25% on the excess of taxable income over MNT 6 billion (2021: 6,000,000 thousand). Interest income on government bonds is not subject to income tax. Impairment losses for non-performing loans and advances are deductible for income tax purposes.

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

In thousands of MNT	2022	2021
Profit before taxation	590,833,224	386,559,083
Tax at statutory rate of 25% (2021: 25%)	147,708,306	96,639,771
Effect of expenses not deductible for income tax purpose	5,009,070	11,310,430
Tax exempted income - Government bond	(8,866,357)	(11,621,277)
Tax exempted income - Other	(889,994)	(398,924)
Effect of income subject to lower tax rate	(900,000)	(900,000)
Tax expense for the year	**142,061,025**	**95,030,000**

The effective income tax rate for 2022 is 24.09% (2021:24.6%).

Tax exempted income represents interest income from government bonds which is tax exempted under Mongolian tax legislation.

31.2 Deferred tax

In thousands of MNT	Debt and equity instruments measured at fair value through OCI	Revaluation of financial derivatives	Depreciation of property and equipment	Total
As at 1 January 2022	**(1,854,755)**	**1,169,341**	**(3,894,179)**	**(4,579,593)**
Recognised in statement of other comprehensive income (Note 23)	3,005,629	2,916,619	-	5,922,248
Recognised in profit or loss	-	(3,026,116)	(3,025,790)	(6,051,906)
As at 31 December 2022	**1,150,874**	**1,059,844**	**(6,919,969)**	**(4,709,251)**
As at 1 January 2021	(4,380,003)	(1,758,608)	(1,328,428)	(7,467,039)
Recognised in statement of OCI (Note 23)	2,525,248	2,820,390	-	5,345,638
Recognised in profit or loss	-	107,559	(2,565,751)	(2,458,192)
As at 31 December 2021	**(1,854,755)**	**1,169,341**	**(3,894,179)**	**(4,579,593)**

31.3 Current income tax liabilities

In thousands of MNT	31 December 2022	31 December 2021
Income tax liability as at 1 January	2,167,852	6,155,494
Current income tax expense	136,009,119	92,571,808
Tax paid	(134,218,981)	(96,559,450)
Income tax liability as at 31 December	**3,957,990**	**2,167,852**

32. Earnings per share

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings per share are calculated as follows:

In thousands of MNT	31 December 2022	31 December 2021
Profit attributable to ordinary equity holders - basic and diluted	**448,772,199**	**291,529,083**
Adjusted weighted average number of ordinary shares for EPS	**1,720,978,200**	**1,720,978,200**

Earnings per share

In thousands of MNT	31 December 2022	31 December 2021
Equity holders of the Bank for the period:		
Basic earnings per share	**261**	**169**
Diluted earnings per share	**261**	**169**

33. Reconciliation of liabilities arising from financing activities

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

	Liabilities from financing activities			
In thousands of MNT	**Other borrowed funds**	**Repo agreement**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January 2022				
Cash transactions	**1,191,916,946**	**620,802,675**	**11,085,695**	**1,823,805,316**
Cash inflows	959,412,011	3,801,304,742	-	4,760,716,753
Cash outflows	(560,785,101)	(4,071,420,232)	(7,633,424)	(4,639,838,757)
Interest paid	(51,736,874)	(9,158,839)	(1,798,399)	(62,694,112)
Non- cash transactions				
New leases	-	-	7,778,978	7,778,978
Interest accrued	73,123,072	25,738,983	1,798,399	100,660,454
Adjustments from modification of the agreements	(2,275,457)	-	-	(2,275,457)
Foreign exchange adjustments	167,278,120	-	-	167,278,120
Liabilities from financing activities at 31 December 2022	**1,776,932,717**	**367,267,329**	**11,231,249**	**2,155,431,295**

	Liabilities from financing activities			
In thousands of MNT	**Other borrowed funds**	**Repo agreement**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January 2021				
Cash transactions	**1,173,586,423**	**184,890,799**	**7,960,407**	**1,366,437,629**
Cash inflows	715,271,479	1,793,870,044	-	2,509,141,523
Cash outflows	(688,946,113)	(1,330,383,814)	(7,110,035)	(2,026,439,962)
Interest paid	(50,944,520)	(45,541,082)	(1,412,573)	(97,898,175)
Non- cash transactions				
New leases	-	-	10,235,323	10,235,323
Interest accrued	45,930,148	17,966,728	1,412,573	65,309,449
Adjustments from modification of the agreements	(868,353)	-	-	(868,353)
Foreign exchange adjustments	(2,112,118)	-	-	(2,112,118)
Liabilities from financing activities at 31 December 2021	**1,191,916,946**	**620,802,675**	**11,085,695**	**1,823,805,316**

34. Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker ('CODM'), and for which discrete financial information is available. The 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 five 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 loans and mortgages.
- *SME banking*: Includes current, demand and term deposit accounts, overdrafts, loan and other credit facilities, business consultation and other advices.
- *Corporate banking*: Includes current, demand and term deposit accounts, overdrafts, loan and other credit facilities
- *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.
- *Others*: Includes Headquarter operations and central shared services operation that manages the Bank's premises and certain corporate costs.

The Bank uses profit before tax to measure profitability of each segment.

As the Bank's operations are located in Mongolia, no further geographical segment information is provided. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

34. Segment Analysis (Continued)

As at 31 December 2022

In thousands of MNT	Retail Banking	SME Banking	Corporate Banking	Treasury	Others	Total
Interest income calculated using effective interest method	705,350,047	126,482,564	151,375,202	253,963,792	90,219,542	1,327,391,147
Other similar interest income	14,611,915	6,994,651	870,536	17,339,939	157,494	39,974,535
Interest expense	(355,837,724)	(4,089,201)	(6,215,226)	(96,316,370)	(13,412,406)	(475,870,927)
Other similar interest expense	-	-	-	(3,414,988)	(1,798,399)	(5,213,387)
Intersegment net interest income/ (expense)	78,019,744	(80,392,577)	(93,175,523)	(55,457,945)	151,006,301	-
Net margin on interest and similar income	**442,143,982**	**48,995,437**	**52,854,989**	**116,114,428**	**226,172,532**	**886,281,368**
Credit loss allowance	(65,615,468)	(41,575,594)	(29,595,602)	(3,793,998)	(2,933,576)	(143,514,238)
Net margin on interest and similar income after credit loss allowance	**376,528,514**	**7,419,843**	**23,259,387**	**112,320,430**	**223,238,956**	**742,767,130**
Fees and commission income	242,899,660	4,646,353	14,020,667	1,899,963	-	263,466,643
Fees and commission expense	(46,693,127)	(29,819)	(21,383)	(1,043,512)	-	(47,787,841)
Gains from modification of borrowed fund at AC	-	-	-	2,275,457	-	2,275,457
Gains less losses from financial derivatives	-	-	-	15,878,389	-	15,878,389
Gains less losses from trading in foreign currencies	11,249,047	1,331,775	3,395,724	16,822,499	-	32,799,045
Gains less losses foreign exchange translation	-	-	-	6,574,939	-	6,574,939
Losses less gains from disposal of financial assets at FVTOCI	-	-	-	(900,167)	-	(900,167)
Losses from modification of financial assets measured at AC	-	-	-	(7,225,649)	-	(7,225,649)
Losses from financial assets at FVTPL	-	-	-	(9,019,495)	-	(9,019,495)
Other operating income	482,102	40	-	3,549	3,831,943	4,317,634
Operating expenses	(159,361,332)	(4,759,852)	(3,818,024)	(4,821,009)	(239,282,988)	(412,043,205)
Other losses, net	(507,792)	(1,344)	-	-	239,480	(269,656)
Profit before tax	**424,597,072**	**8,606,996**	**36,836,371**	**132,765,394**	**(11,972,609)**	**590,833,224**
Total assets	**5,465,468,719**	**950,714,579**	**1,065,392,710**	**6,834,799,620**	**636,337,718**	**14,952,713,346**
Total liabilities	**9,080,104,299**	**485,975,301**	**1,282,842,419**	**1,961,044,649**	**627,380,612**	**13,437,347,280**
Capital expenditure	**25,175,184**	**264,100**	**-**	**-**	**48,001,901**	**73,441,185**

34. Segment Analysis (Continued)

As at 31 December 2021

In thousands of MNT	Retail Banking	SME Banking	Corporate Banking	Treasury	Others	Total
Interest income calculated using effective interest method	594,001,245	97,527,389	110,511,745	289,408,447	48,502,810	1,139,951,636
Other similar interest income	17,297,728	6,001,850	747,943	12,650,715	2,119,066	38,817,302
Interest expense	(428,003,800)	(4,247,570)	(16,735,241)	(86,014,476)	(7,304,551)	(542,305,638)
Other similar interest expense	-	-	-	-	(1,886,344)	(1,886,344)
Intersegment net interest income/ (expense)	240,310,436	(55,526,415)	(47,345,777)	(193,245,154)	55,806,910	
Net margin on interest and similar income	**423,605,609**	**43,755,254**	**47,178,670**	**22,799,532**	**97,237,891**	**634,576,956**
Credit loss allowance	(19,701,328)	(24,778,194)	(20,843,995)	(22,422,738)	(67,200)	(87,813,455)
Net margin on interest and similar income after credit loss allowance	**403,904,281**	**18,977,060**	**26,334,675**	**376,794**	**97,170,691**	**546,763,501**
Fees and commission income	191,834,729	3,559,006	14,758,798	1,933,874	-	212,086,407
Fees and commission expense	(34,110,320)	(22,335)	(1,094,789)	(706,846)	-	(35,934,290)
Gains from modification of borrowed fund at AC	-	-	-	868,353	-	868,353
Gains less losses from financial derivatives	-	-	-	(202,377)	-	(202,377)
Gains less losses from trading in foreign currencies	5,873,330	444,958	1,455,803	11,259,574	-	19,033,665
Gains less losses foreign exchange translation	-	-	-	(1,696,325)	-	(1,696,325)
Losses less gains from disposal of financial assets at FVTOCI	-	-	-	2,252,900	-	2,252,900
Losses from financial assets at FVTPL	-	-	-	(8,771,737)	-	(8,771,737)
Other operating income	493,242	6,085	-	707	787,156	1,287,190
Operating expenses	(163,729,240)	(4,313,683)	(3,722,501)	(2,046,066)	(174,365,692)	(348,177,182)
Other losses, net	1,224	1,603	-	-	(953,849)	(951,022)
Profit before tax	**404,267,246**	**18,652,694**	**37,731,986**	**3,268,851**	**(77,361,694)**	**386,559,083**
Total assets	**4,817,273,989**	**1,038,128,830**	**898,012,120**	**5,394,186,731**	**1,315,847,324**	**13,463,448,994**
Total liabilities	**9,013,801,421**	**353,729,486**	**834,161,229**	**1,497,611,250**	**479,635,232**	**12,178,938,618**
Capital expenditure	**21,618,537**	**320,669**	**-**	**-**	**45,551,419**	**67,490,625**

34. Segment Analysis (Continued)

In thousands of MNT	Retail Banking	SME Banking	Corporate Banking	Treasury	Total
2022					
Commissions on operations with plastic cards	114,426,471	*3,525,115*	11,050,927	-	129,002,513
Commissions on mobile and internet services	110,613,873	140,640	28,478	-	110,782,991
Commissions on settlement transactions	11,283,356	234,847	214,720	1,734,982	13,467,905
Commissions on documentary business and guarantees	282,940	426,281	2,595,969	114,635	3,419,825
Commissions on cash operations	2,136,438	167,601	35,728	19,935	2,359,702
Commissions on transfer payments	304,653	318	125	178	305,274
Other	3,851,929	151,551	94,720	30,233	4,128,433
Total fees and commission income for 2022	**242,899,660**	**4,646,353**	**14,020,667**	**1,899,963**	**263,466,643**

In thousands of MNT	Retail Banking	SME Banking	Corporate Banking	Treasury	Total
2021					
Commissions on operations with plastic cards	90,692,118	2,769,102	12,301,381	-	105,762,601
Commissions on mobile and internet services	85,436,368	107,569	30,548	-	85,574,485
Commissions on settlement transactions	10,304,406	157,332	180,792	1,783,421	12,425,951
Commissions on documentary business and guarantees	297,323	390,973	2,213,635	112,178	3,014,109
Commissions on cash operations	642,136	19,709	25,114	18,341	705,300
Commissions on transfer payments	292,375	439	130		292,944
Other	4,170,003	113,882	7,198	19,934	4,311,017
Total fees and commission income for 2021	**191,834,729**	**3,559,006**	**14,758,798**	**1,933,874**	**212,086,407**

35. Contingencies and Commitments

To meet 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.

	31 December 2022			31 December 2021		
In thousands of MNT	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Contingent liabilities						
Guarantees issued	109,875,380	(493,937)	109,381,443	129,567,459	(655,441)	128,912,018
Letters of credit	24,667,537	(143,760)	24,523,777	26,247,091	(130,565)	26,116,526
Undrawn credit lines	640,182,957	(4,954,504)	635,228,453	555,157,014	(3,853,729)	551,303,285
Undrawn credit cards	61,741,646	(614,748)	61,126,898	75,618,760	(1,234,370)	74,384,390
Total contingent liabilities	**836,467,520**	**(6,206,949)**	**830,260,571**	**786,590,324**	**(5,874,105)**	**780,716,219**
Capital related commitments						
Property and equipment	2,585,144	-	2,585,144	13,019,502	-	13,019,502
Total	**839,052,664**	**(6,206,949)**	**832,845,715**	**799,609,826**	**(5,874,105)**	**793,735,721**

35. Contingencies and Commitments (Continued)

Expected credit loss allowance for off balance sheet commitments:

Undrawn credit lines:

In thousands of MNT	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 31 December 2021	**3,225,582**	**319,411**	**308,736**	**3,853,729**	**533,843,824**	**20,509,543**	**803,647**	**555,157,014**
New originated or purchased/increases	17,341,656	1,631,358	902,179	**19,875,193**	2,419,802,488	105,235,498	1,866,417	**2,526,904,403**
Exposures derecognised or matured/lapsed	(16,601,986)	(1,846,818)	(980,257)	**(19,429,061)**	(2,335,171,427)	(102,700,820)	(4,006,213)	**(2,441,878,460)**
- Transfers to Stage 1	632,628	(632,748)	-	**(120)**	5,840,011	(5,840,011)	-	**-**
- Transfers to Stage 2	(1,587,386)	2,592,531	(564,292)	**440,853**	(61,205,219)	63,405,219	(2,200,000)	**-**
- Transfers to Stage 3	-	(1,196,294)	1,410,204	**213,910**	-	(7,127,577)	7,127,577	**-**
At 31 December 2022	**3,010,494**	**867,440**	**1,076,570**	**4,954,504**	**563,109,677**	**73,481,852**	**3,591,428**	**640,182,957**

In thousands of MNT	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 31 December 2020	**2,551,462**	**526,188**	**415,312**	**3,492,962**	**391,597,426**	**32,649,551**	**1,081,066**	**425,328,043**
New originated or purchased/ increases	14,904,492	1,345,446	217,042	**16,466,980**	2,260,882,420	88,991,023	493,195	**2,350,366,638**
Exposures derecognised or matured/lapsed	(14,196,102)	(1,585,493)	(324,618)	**(16,106,213)**	(2,112,078,589)	(107,569,288)	(889,790)	**(2,220,537,667)**
- Transfers to Stage 1	24,620	(24,620)	-	**-**	1,515,182	(1,515,182)	-	**-**
- Transfers to Stage 2	(58,890)	58,890	-	**-**	(8,072,615)	8,072,615	-	**-**
- Transfers to Stage 3	-	(1,000)	1,000	**-**	-	(119,176)	119,176	**-**
At 31 December 2021	**3,225,582**	**319,411**	**308,736**	**3,853,729**	**533,843,824**	**20,509,543**	**803,647**	**555,157,014**

35. Contingencies and Commitments (Continued)

Undrawn credit cards:

	Credit loss allowance				Gross carrying amount			
In thousands of MNT	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 31 December 2021	**258,457**	**327,904**	**648,009**	**1,234,370**	**73,174,575**	**1,341,485**	**1,102,700**	**75,618,760**
New originated or purchased/ increases	1,586,956	994,936	1,917,044	**4,498,936**	279,973,162	5,769,803	3,418,302	**289,161,267**
Exposures derecognised or matured/lapsed	(1,581,303)	(1,585,673)	(2,334,490)	**(5,501,466)**	(293,030,233)	(6,351,169)	(3,656,979)	**(303,038,381)**
- Transfers to Stage 1	1,582	(39,915)	-	**(38,333)**	244,030	(244,030)	-	**-**
- Transfers to Stage 2	(32,367)	393,923	(41,292)	**320,264**	(1,172,870)	1,242,911	(70,041)	**-**
- Transfers to Stage 3	-	(67,858)	168,835	**100,977**	-	(255,020)	255,020	**-**
At 31 December 2022	**233,325**	**23,317**	**358,106**	**614,748**	**59,188,664**	**1,503,980**	**1,049,002**	**61,741,646**

	Credit loss allowance				Gross carrying amount			
In thousands of MNT	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 31 December 2020	**281,125**	**9,341**	**477,305**	**767,771**	**79,538,764**	**442,598**	**814,704**	**80,796,066**
New originated or purchased/ increases	544,540	682,857	785,636	**2,013,033**	153,995,000	2,286,592	1,186,057	**157,467,649**
Exposures derecognised or matured/lapsed	(574,747)	(294,491)	(677,196)	**(1,546,434)**	(159,524,792)	(1,959,228)	(1,160,935)	**(162,644,955)**
- Transfers to Stage 1	11,420	(1,322)	(10,098)	**-**	218,648	(201,509)	(17,139)	**-**
- Transfers to Stage 2	(3,848)	8,088	(4,240)	**-**	(1,044,542)	1,051,728	(7,186)	**-**
- Transfers to Stage 3	(33)	(76,569)	76,602	**-**	(8,503)	(278,696)	287,199	**-**
At 31 December 2021	**258,457**	**327,904**	**648,009**	**1,234,370**	**73,174,576**	**1,341,485**	**1,102,700**	**75,618,760**

35. Contingencies and Commitments (Continued)

Guarantees issued:

In thousands of MNT	Credit loss allowance Stage 1	Gross carrying amount Stage 1
At 31 December 2021	**655,441**	**129,567,459**
New exposures	1,454,116	489,673,777
Exposures derecognised or matured/lapsed	(1,615,620)	(509,365,856)
At 31 December 2022	**493,937**	**109,875,380**

In thousands of MNT	Credit loss allowance Stage 1	Gross carrying amount Stage 1
At 31 December 2020	**331,350**	**84,664,448**
New exposures	1,812,629	602,673,876
Exposures derecognised or matured/lapsed	(1,488,538)	(557,770,865)
At 31 December 2021	**655,441**	**129,567,459**

Letters of credits

In thousands of MNT	Credit loss allowance Stage 1	Gross carrying amount Stage 1
At 31 December 2021	**130,565**	**26,247,091**
New exposures	262,749	54,071,691
Exposures derecognised or matured/lapsed	(249,554)	(55,651,245)
At 31 December 2022	**143,760**	**24,667,537**

In thousands of MNT	Credit loss allowance Stage 1	Gross carrying amount Stage 1
At 31 December 2020	**188,066**	**41,183,184**
New exposures	242,741	48,470,247
Exposures derecognised or matured/lapsed	(300,242)	(63,406,340)
At 31 December 2021	**130,565**	**26,247,091**

35. Contingencies and Commitments (Continued)

	Pd range	31 December 2022					31 December 2021				
		Undrawn credit lines	Undrawn credit cards	Guarantees issued	Import letters of credit	Gross carrying amount	Undrawn credit lines	Undrawn credit cards	Guarantees issued	Import letters of credit	Gross carrying amount
Stage 1	from 0,00% to <0,15%	35,220,891	14,537,567	-	-	49,758,458	-	-	-	-	-
	from 0,15% to <0,25%	-	1,769,507	-	-	1,769,507	-	-	-	-	-
	from 0,25% to <0,50%	51,881,802	2,009,769	-	-	53,891,571	-	-	-	-	-
	from 0,50% to <0,75%	-	2,891,209	-	-	2,891,209	-	-	-	-	-
	from 0,75% to <2,50%	32,639,060	37,675,676	-	-	70,314,736	10,874,034	73,174,575	-	-	84,048,610
	from 2,50% to <10,0%	443,362,909	-	109,875,380	24,667,537	577,905,826	519,731,532	-	129,567,459	26,247,091	675,546,082
	from 10,0% to <45,0%	-	147,601	-	-	147,601	3,238,258	-	-	-	3,238,258
	from 45,0% to <100,0%	5,015	157,335	-	-	162,350	-	-	-	-	-
	Total Stage 1	**563,109,677**	**59,188,664**	**109,875,380**	**24,667,537**	**756,841,258**	**533,843,824**	**73,174,575**	**129,567,459**	**26,247,091**	**762,832,950**
Stage 2	from 0,00% to <0,15%	460,080	1,105,155	-	-	1,565,235	-	-	-	-	-
	from 0,15% to <0,25%	-	18,349	-	-	18,349	-	-	-	-	-
	from 0,25% to <0,50%	3,303,957	20,798	-	-	3,324,756	-	-	-	-	-
	from 0,50% to <0,75%	-	19,838	-	-	19,838	-	-	-	-	-
	from 0,75% to <2,50%	15,116,997	119,133	-	-	15,236,130	-	209,281	-	-	209,281
	from 2,50% to <10,0%	31,473,511	82,797	-	-	31,556,308	1,709,328	-	-	-	1,709,328
	from 10,0% to <45,0%	23,099,202	34,595	-	-	23,133,796	17,457,096	-	-	-	17,457,096
	from 45,0% to <100,0%	28,105	103,315	-	-	131,420	1,343,119	1,132,204	-	-	2,475,323
	Total Stage 2	**73,481,852**	**1,503,980**	**-**	**-**	**74,985,832**	**20,509,543**	**1,341,485**	**-**	**-**	**21,851,028**

35. Contingencies and Commitments (Continued)

		31 December 2022					31 December 2021				
	Default period	**Undrawn credit lines**	**Undrawn credit cards**	**Guarantees issued**	**Import letters of credit**	**Gross carrying amount**	**Undrawn credit lines**	**Undrawn credit cards**	**Guarantees issued**	**Import letters of credit**	**Gross carrying amount**
Stage 3	up to 12 months	2,965,572	690,204	-	-	3,655,776	-	5,207	-	-	5,207
	from 13 to 24 months	167,676	190,995	-	-	358,671	73,416	462,147	-	-	535,563
	from 25 to 36 months	136,203	152,927	-	-	289,130	308,752	618,790	-	-	927,542
	from 37 to 48 months	-	2,622	-	-	2,622	-	8,616	-	-	8,616
	from 49 to 60 months	149,337	10,594	-	-	159,931	133,724	4,154	-	-	137,877
	from 61 to 84 months	142,640	1,660	-	-	144,300	257,755	3,786	-	-	261,541
	above 84 months	30,000	-	-	-	30,000	30,000	-	-	-	30,000
	Total Stage 3	**3,591,428**	**1,049,002**	**-**	**-**	**4,640,430**	**803,647**	**1,102,700**	**-**	**-**	**1,906,346**

35. Contingent liabilities and commitments (Continued)

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.

Tax dispute

During the year ended on 31 December 2017, a tax inspection on the Bank's tax filings was conducted by the tax authority covering the period from 1 January 2012 to 31 December 2016. As a result of the inspection, a number of initial findings were identified, and the tax authority issued a demand notice for MNT 8,093,019 thousand to be paid by the Bank. The Bank has assessed the findings and has submitted a rejection letter to the Tax Authority of Mongolia on 23 February 2018. Since the start of the case, there have been number of appeals and dismissals from both parties. In 2022, Khan bank appealed Administrative court decision dated 30 May 2022 and the case moved to the appellate court. Subsequently in July 2022, the Appellate Court rendered the decision of the Primary Administrative Court invalid on the basis that the court breached the procedural rules. This case has returned to the Primary Administrative Court. The court's ruling to collect evidence from the Bank of Mongolia has not yet been implemented, therefore the next court session has not been scheduled yet.

A provision for tax penalty in total of MNT 4,560,000 thousand (31 December 2021: 1,000,000 thousand) was provided for as at 31 December 2022, representing management's best estimate of the potential outcome.

Deposit Insurance Corporation claim

On 6 September 2018, Deposit Insurance Corporation ("DIC") has filed a claim against the Bank for an amount of MNT 1,000,000 thousand being the deposit insurance fee payable on the Development Bank of Mongolia's current and deposit account balances held with the Bank. The Bank does not agree with DIC's view and response letter has been submitted to the court on 1 October 2018. Further on 18 January 2019, DIC had submitted an additional claim for MNT 667 million, being the potential income lost on the claimed insurance fee, thus making the total claim amounting MNT 1.6 billion.

The dispute had arisen as a result of a different legal interpretations between the two parties. The case has been discussed at Primary court, Appellate court, Supreme and Supreme court for number of times in previous years. In 2022, the Supreme court session of first instance was held on 8 February 2022 and the court accepted the DIC`s request to appoint an expert. The case is currently suspended for an indefinite period of time. The case remains suspended. Hence the Bank did not recognise any liability as at 31 December 2022 and 31 December 2021.

Possible income tax liability

Apart from assessing impairment provision in accordance with IFRS requirements, the Bank determines impairment provision for the purposes of reporting to the Bank of Mongolia (central bank) based on classification of loans based on provisioning guidelines in accordance with the Regulations on Asset Classification and Provisioning, jointly approved by the Bank of Mongolia and the Ministry of Finance. In accordance with these regulations, the Bank is required to determine the quality of loans and advances based on quantitative and qualitative factors. Quantitative factors include time characteristics, including past due status (i.e., delays in repayment). Loans are classified as follows: Performing, In Arrears, and Non-Performing. Non-performing loans are further classified as Sub-Standard, Doubtful and Loss. Each category requires a specific reserve percentage.

Corporate income tax law does not specify the base of impairment provision for tax purposes, whether it is IFRS or Bank of Mongolia requirements. The law explicitly addressed that impairment provision charges for the performing loans represent non-deductible expenses for the period. As in previous periods, the Bank has determined impairment provision as of 31 December 2021 and 31 December 2022 as per IFRS requirements and has treated them as deductible expenses and the impairment provision for performing loans assessed in accordance with Bank of Mongolia requirements were treated as non-deductible expenses for the period.

Impairment provision per Bank of Mongolia is lower than IFRS provision as of 31 December 2022 and 31 December 2021. Given that tax regulations do not explicitly address tax base of impairment provision for loans, Mongolian tax regulations can be subject to different interpretations. Therefore, there is a risk that the tax authorities might have a view that deduction of impairment provision for CIT purposes should be based on Bank of Mongolia statutory rules rather than on impairment provision assessed in accordance with IFRS.

35. Contingent liabilities and commitments (Continued)

In such case, the Bank would need to pay additional corporate income tax liability in amount of MNT 30,811,514 thousand and MNT 29,739,670 thousand as of 31 December 2022 and 31 December 2021, respectively and the same amount of deferred tax asset would have been recognised resulting in no impact on retained profits for the year or net assets.

The management is in process of communicating with the tax authority and obtaining further clarification. However, based on all available information at the date of issuance of this financial information, including current practices of tax authorities, results of previous tax inspections, and practices applied in the Mongolian banking sector, management believes that such risk is possible.

36. Financial risk management

The risk management function within the Bank is carried out with respect to financial risks, operational and legal risks, including legal risk, compliance risks, IT and information security risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

The main goal of the Bank's risk management is to identify and manage risks that have a potential effect on the strategy and objectives of the Bank within its risk appetite. An effective risk management process is critical to the Bank's continued profitability, and each Bank employee is responsible for reporting, managing and monitoring potential risks.

With the exception of Legal, Compliance, and Information technology risks, risk management is overseen by units under the second line of defense and it is reported directly to the Chief Risk Officer (CRO). Legal and Compliance Risks are overseen by the Chief Executive Officer (CEO), and Information Technology Risks are overseen by the Chief Information Officer (CIO).

The Bank has a clearly defined risk management framework designed to optimise risk and return trade-off. The risk management framework in place is to ensure that:

(i) Individuals who manage the risks understand the requirement and measurement system;
(ii) The Bank’s risk exposure is within limits established by the Board of Directors (“the Board”);
(iii) The capital allocation, where applicable, is consistent with the risk of exposures of the Bank; and
(iv) The Bank’s performance objectives are aligned with the risk appetite and tolerance.

36.1 Risk management structure

The Board has primary responsibility for overseeing the risk management framework of the Bank and may delegate its responsibilities to Board Risk committee.

Board Risk Committee (“BRC”). BRC assists the Board of Directors in fulfilling its responsibility of overseeing the risk exposures of the Bank. BRC works to provide risk management and control system that accommodates the general risk level of the Bank and monitors its implementation. The BRC also identifies core components of the Bank’s risk management, reviews monthly reports by Risk Management Committee and Compliance Committee and ensures the risk appetite and limits approved by the Board are followed.

Board Audit Committee. Audit Committee of Board is responsible for assisting the Board of Directors to fulfil its oversight responsibilities for the integrity of the Bank’s financial statements and disclosures, its compliance with legal and regulatory requirements, effectiveness and efficiency of risk management and internal controls and the performance of the internal audit functions.

Executive management committee. Executive Management Committee consists of all senior executive management of the Bank and holds weekly meetings to discuss and decide the Bank’s strategic issues and

planning required for sustainable business management and responsible for decision-making on establishing head office committee that establishes new committees, dissolving and changing committee names, and approving committee members.

Risk Management Committee. Risk Management Committee is responsible for regular monitoring of the Bank’s risk management framework and risk management process, assessing significant material risks throughout the Bank, and developing necessary strategies and actions for risk mitigation. The committee uses the Risk Dashboard as a critical tool in documenting material risks, their levels, and treatment actions. The Risk Dashboard is updated and maintained monthly to assist in decision-making. Risk Management Committee is chaired by VP CRO and holds regular meetings once a month.

36. Financial risk management (Continued)

36.1 Risk management structure (Continued)

Asset and Liability Committee ("ALCO"). ALCO is responsible for providing centralised 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 CEO.

36.2 Credit risk

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

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

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

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

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

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

The Bank established credit committees that are responsible for approving credit limits for individual borrowers.

Credit Risk Committee. The Bank has two levels of credit risk committees, which are Head office credit risk committee (hereinafter referred to as "HOCRC") and branch-level credit risk committees. Branch-level credit risk committees include SME Credit risk committee, Branch credit risk committee of UB retail banking and Branch credit risk committee of Rural retail banking. HOCRC meeting is held on weekly basis and other credit risk committee meetings are held at least once a month.

HOCRC discusses and approves loan products and services, their general terms, loan operation and credit risk related procedures and sets internal credit risk limits. In addition, HOCRC discusses total loan portfolio quality, concentration risks, adequacy of loan loss provision, early warning system implementation, the performance of internal limits, compliance of covenant requirements, makes relevant decisions and monitors. HOCRC is chaired by the CRO.

Branch-level credit risk committees discuss portfolio quality and loan with problem of their affiliate branch units, develop mitigating measures and action plans and monitor the fulfilment.

36. Financial risk management (Continued)

36.2 Credit risk (Continued)

Credit Committees. The Bank's Credit Committees structure is organized through distributing approval authority at each level depending on loan amount. The Bank established below types of credit committees for loan approval and monitoring:

1. Head Office Credit Committee (HOCC) is primarily responsible for approving all credit exposures over MNT 3 billion. Depending on the borrowers' risk classification and total exposure, decision making authorities of HOCC and the Board will be as follows. Herein:

MNT billion

Borrower risk rating	> MNT 3 ≤ MNT 10	>MNT 10 ≤ MNT 25	> MNT 25 ≤ 5% of Equity	> 5% of Equity <
Low risk (1-4) (green)	HOCC	HOCC	HOCC	Board
Moderate risk (5-7) (yellow)	HOCC	The Board		
High risk (8-10) (red)	The Board			

HOCC sets and approves lending limits of the following credit committees:
   a. Head office credit sub-committee (HOCSC),
   b. Mortgage credit committee (IMCC)
   c. Branch credit committee of UB retail banking (BCC UBRB)
   d. Branch credit committees of Rural retail banking (BCC RRB)
   e. Rural joint-decision making committee of Rural retail banking (RJDMC RRB)

2. HOCSC approves credit exposures up to MNT 3 billion, which are above the approval limits of SMECC.
3. IMCC approves mortgage loans up to MNT 500 million for branches of Retail banking and business centres of SME banking.
4. BCC UBRB approves credit exposures of up to MNT 500 million except mortgage loans for branches of UB retail banking.
5. BCC RRB authority shall be different depending on population at that area and market features and approves credit exposures amounted between MNT 120 million and MNT 400 million. In case where risk analyst of the Corporate Credit Risk Department joins in BCC RRB as a voting member, BCC RRB shall have the authority of decision and approval for credit amounted up to MNT 500 million. Head of Corporate Credit Risk Department reserve the authority to change the lending limits of BCC RRB within the HOCC's approved lending limits by taking into account factors such as market demand and loan portfolio quality.
6. RJDMC RRB approves credit exposures of up to MNT 500 million except mortgage and business loans for branches of Rural retail banking.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Bank applies internal PD intervals. Please refer to Note 12 and 35 for PD intervals mapping to Stages as of year ended 31 December 2022 and 31 December 2021.

Collateral and other credit enhancements. The amount and type of collateral required are subject to 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:

(i) corporate lending: pledges over real-estate properties, inventories, plant and equipment, machinery and vehicles;
(ii) small and medium business lending: pledges over real estate properties and inventories;
(iii) consumer lending: pledges over automobiles and assignment of income; and charges over real estate properties;
(iv) residential mortgages: mortgages over residential properties.

According to the Bank's Lending operations procedure, it requires all loans to be 100% collateralised by risk assessed price ("RAP") except salary loans and pension loans. However, if it is otherwise stated in specific loan product procedures, collateral RAP can be lower than 100%.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries and personal guarantees from the main shareholders for the limited liability entities, but the potential benefits are not included in the above.

36. Financial risk management (Continued)

36.2 Credit risk (Continued)

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

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 7, 8, 9 and 12.

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

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period.

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

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

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

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

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

- the borrower is more than 90 days past due on its contractual payments;
- the borrower has loans at other banks with more than 90 days past due on its contractual payments;
- the Bank has sold the borrower's debt or its portion at a loss due to credit deterioration;
- international rating agencies have classified the borrower in the default rating class;
- the borrower meets the unlikeliness-to-pay criteria listed below:
    - the bank was forced to restructure the debt;
    - the borrower is deceased;
    - the borrower is insolvent;
    - collateral devaluation during loan tenor;
    - the borrower is in breach of financial covenants or violation of terms and conditions and other requirements reflected in loan agreement;
    - Reduction in borrower's working capital or loosing big customer;
    - it is becoming likely that the borrower will enter bankruptcy; and
    - the loans were purchased or originated at a deep discount that reflects the incurred credit losses.

36. Risk management (Continued)

36.2 Credit risk (Continued)

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

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

The assessment whether or not there has been a significant increase in credit risk (“SICR”) since initial recognition is performed on an individual basis and on a portfolio basis. The criteria used to identify an SICR (Note 4) are monitored and reviewed periodically for appropriateness by the Bank’s Corporate and Retail Credit Risk Departments. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

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

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

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

The Bank has two approaches for ECL measurement: (i) assessment on an individual basis; and (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio.
The Bank performs an assessment on an individual basis for the following types of loans: loans with unique credit risk characteristics or restructured loans, loans included in watch-list, that is, individual exposures above MNT 500,000 thousand and loans with overdue days with individual exposure above MNT 2,000,000 thousand.

In case if actual evidence on credit value impairment is to be revealed, expected losses of value impairment to credit shall be estimated. Actual evidence on credit value impairment shall be situations such as financial difficulties, failure in contract obligations and past due, contract restructuring and collateral devaluation.

Estimation for expected losses, potential scenario shall be assessed with specific assessment method and ECLs shall be estimated in consideration of probability of each scenario.

The Bank performs an assessment on a portfolio basis for the following types of loans: retail loans and loans issued to SMEs, when no borrower-specific information is available. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status, the historical data on losses, location and other predictive information. The Bank also performs an assessment on a portfolio basis for loans issued to corporate customers. interbank loans, retail loans and loans issued to SMEs.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines 2-3 possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Corporate and Retail Credit Risk and Special Asset Departments. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

36. Financial risk management (Continued)

36.2 Credit risk (Continued)

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as business, consumer and agriculture), product type, credit risk rating, date of initial recognition, term to maturity, the quality of collateral and loan to value (LTV) ratio. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Corporate and Retail Risk Management Departments.

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

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

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data and hazard rate approach.

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

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

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines of corporate customers, credit cards issued to individuals and for financial guarantees is defined based on statistical analysis of past exposures at default. CCF for overdrafts is defined as 100% since the limits can be used by the customers at any time.

36. Financial risk management (Continued)

36.2 Credit risk (Continued)

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate unbiased and supportable forward-looking information. The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are provided by the Bank's treasury team on a quarterly basis and provide the best estimate of the expected macro-economic development over the next five years. After five years, a mean reversion approach is used, which means that economic variables tend to revert to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP). The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Bank's Credit Risk Department also provides other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure that non-linearity is captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking into account the range of possible outcomes of which each chosen scenario is representative. The assessment of SICR is performed using the Lifetime PD under each of the bases and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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

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

36.3 Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Despite the Mongolia facing unexpected, combined shocks in 2022 caused by the border restrictions imposed by the People's Republic of China (PRC), Russian invasion of Ukraine, as well as global tightening of monetary policy, which increased the pressures on the country’s macro-economy, the Bank effectively managed the potential loss through its market risk management framework at appropriate level.

The Bank measures and monitors this risk element using Value-at-Risk methodology, static gap analysis and sensitivity analyses, and ALCO sets and enforces internal risk limits including stop-loss limit, position limits, cash flow limits for non-deliverable FX derivative, trading limit with banks and customers, and total credit exposure limits.

Moreover, the Bank performs stress testing on its material risks on a quarterly basis in order to assess risk bearing capacity of the Bank, further determine whether Bank has adequate capital and liquidity to endure a loss due to major changes and create additional capital reserve required for overcoming crisis and to improve an effectiveness of the action plan for unexpected situation. To ensure the achievement of the risk management, the Bank continuously develops and implements market risk measurement models, methodologies, limit setting processes as well as risk mitigation techniques in accordance with international best practices and standards.

36. Financial risk management (Continued)

36.4. Currency risk

Currency risk is the potential risk of loss that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Within the scope of the currency risk management, the Bank complies with prudential ratios in single and aggreagte foreign currencies to align potential losses associated with the exchange rate fluctuations to risk bearing capability of the banks set by the Bank of Mongolia. In addition, the bank measures and manages its currency risk internally using Value-at-Risk methodology, which measures the potential amount that the Bank could lose from its open positions over the specific time frame for a given level of confidence. The VaR methodology employed by the Bank uses a one-day period, using 99% confidence level, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day, and are determined by observing market data movements over a 250-day period. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. In case there is a market instability, there is a high demand for accurate FX risk estimation. Therefore, during the reporting year the bank has completed several large-scale developments for the FX risk management software, such as expanding the back testing method and models and improving risk management information system. The Bank uses these developments for its day-to-day operations and performs Value-at-Risk report, including the risk limit set by ALCO.

The ALCO also establishes trading limits in dealing with its counterparties and constantly monitors its performance. Moreover, the Bank has an FX risk contingency plan to take in case of unusual circumstances in the FX market that is based on currency risk stress testing performed on a quarterly basis, which results are reported to ALCO for decision making.

The table below summarises the Bank’s exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2022				At 31 December 2021			
In thousands of MNT	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
MNT	11,033,605,880	(9,041,716,734)	(1,177,315,414)	814,573,732	10,874,584,091	(9,646,374,772)	(485,885,071)	742,324,248
USD	2,647,234,835	(3,857,780,654)	1,301,466,648	90,920,829	1,758,712,858	(2,309,751,630)	512,968,551	(38,070,221)
EUR	19,408,755	(19,577,161)	(33,162)	(201,568)	19,808,065	(15,864,611)	(18,329)	3,925,125
CNY	477,834,556	(469,266,033)	-	8,568,523	136,508,127	(144,086,326)	332	(7,577,867)
Other	52,296,621	(24,122,071)	(354,721)	27,819,829	69,401,047	(45,844,916)	(298,711)	23,257,420
Total	**14,230,380,647**	**(13,412,462,653)**	**123,763,351**	**941,681,345**	**12,859,014,188**	**(12,161,922,255)**	**26,766,772**	**723,858,705**

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

In thousands of MNT	**At 31 December 2022**	**At 31 December 2021**
USD strengthening by 15% (2021: strengthening by 15%)	13,638,124	(5,710,533)
USD weakening by 15% (2021: weakening by 15%)	(13,638,124)	5,710,533
EUR strengthening by 15% (2021: strengthening by 15%)	(30,235)	588,769
EUR weakening by 15% (2021: weakening by 15%)	30,235	(588,769)
CNY strengthening by 15% (2021: strengthening by 15%)	1,285,279	(1,136,680)
CNY weakening by 15% (2021: weakening by 15%)	(1,285,279)	1,136,680
Other strengthening by 15% (2021: strengthening by 15%)	4,172,974	3,488,613
Other weakening by 15% (2021: weakening by 15%)	(4,172,974)	(3,488,613)

36. Financial risk management (Continued)

36.5. Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

The Bank measures and monitors the potential interest rate risk exposures on both banking and trading book positions. Changes in market interest rates directly impacts bank's projected net interest income in the short term and impacts economic value of equity in the long term. In order to maintain the risk from market interest rate changes at the minimum, the Bank uses standard approaches and interest rate shock scenarios set out in the methodologies developed by the Basel Committee on Banking Supervision. Using the above mentioned methodologies ALCO approves internal risk limits. Herein:

- To manage interest rate risk in trading book the bank optimally sets the constraints such as position limit and stop loss limit using Liquidity adjusted Value-at-Risk method.
- To manage interest rate risks on the banking book the bank uses an earnings and economic value perspectives and monitoring associated limits adherence in the bank on the monthly basis.

In addition, the Bank ensures compliance with interest rate risk gap ratios set by the international financial institutions and performs interest rate stress testing on a quarterly basis and results are reported to ALCO for decision making.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of MNT	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
31 December 2022						
Total financial assets	3,290,658,076	2,822,553,292	1,974,346,084	4,013,476,352	2,262,274,272	**14,363,308,076**
Total financial liabilities	1,672,207,654	2,673,907,298	2,691,632,922	1,528,757,814	4,850,853,862	**13,417,359,550**
Net interest sensitivity gap at 31 December 2022	1,618,450,422	148,645,994	(717,286,838)	2,484,718,538	(2,588,579,590)	**945,948,526**
31 December 2021						
Total financial assets	3,752,686,452	1,352,061,532	1,578,528,066	4,216,552,946	1,989,428,929	**12,889,257,925**
Total financial liabilities	4,474,921,445	3,188,487,646	2,673,253,556	1,705,462,150	120,117,211	**12,162,242,008**
Net interest sensitivity gap at 31 December 2021	(722,234,993)	(1,836,426,114)	(1,094,725,490)	2,511,090,796	1,869,311,718	**727,015,917**

At 31 December 2022, if interest rates at that date had been 100 basis points lower (2021: [100] basis points lower) with all other variables held constant, profit for the year would have been MNT 15,890,847 thousand (2021: MNT 23,039,837 thousand higher) lower, mainly as a result of higher interest expense on variable interest liabilities. Other components of equity would have been MNT 2,907,025 thousand (2021: MNT 5,490,483 thousand) higher, as a result of an increase in the fair value of fixed rate financial assets at fair value through other comprehensive income.

If interest rates had been 100 basis points higher (2021: [100] basis points higher), with all other variables held constant, profit would have been MNT 15,890,847 thousand (2021: MNT 23,039,837 thousand lower) higher, mainly as a result of higher interest expense on variable interest liabilities. Other components of equity would have been MNT 787,938 thousand (2021: MNT 3,694,922 thousand) lower, as a result of a decrease in the fair value of fixed rate financial assets at fair value through other comprehensive income.

36. Financial risk management (Continued)

36.5. Interest rate risk (Continued)

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

	2022					2021				
In % p.a.	**MNT**	**USD**	**EUR**	**CNY**	**Other**	**MNT**	**USD**	**EUR**	**CNY**	**Other**
Assets										
Cash and cash equivalents	8.49%	1.41%	0%	0%	0%	4.72%	0%	0%	0%	0%
Mandatory reserves	5.50%	0%	-	-	-	2.50%	0%	-	-	-
Investments in debt securities	12.09%	6.42%	-	-	-	10.46%	6.53%	-	-	-
Loans and advances to customers	13.34%	6.20%	7.35%	-	-	12.41%	6.34%	6.84%	-	-
Liabilities										
Due to other banks	12.91%	0.69%	0%	0%	0%	0%	0%	0%	0%	9.97%
Repurchase agreements	8.02%	-	-	-	-	6.56%	-	-	-	-
Customer accounts										
- current accounts	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
- term deposits	9.72%	2.36%	-	1.46%	-	9.19%	1.83%	-	1.42%	
Borrowed funds	4.38%	7.12%	4.22%	-	-	4.09%	4.18%	3.01%	-	-
Lease liabilities	15.65%	-	-	-	-	15.98%	-	-	-	-

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

36.6. Liquidity risk

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. 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. In order 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 a 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 8% percent of customer’s MNT deposits (increased from 6% to 8% on 28 January 2022) and 18% of customer’s USD deposit (increased from 15% to 18% on 16 December 2021) based on the average period of two weeks.

36. Financial risk management (Continued)

36.6. Liquidity risk (Continued)

The table below summarises the maturity profile of the Bank's financial assets and liabilities at 31 December 2022 and 2021 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 reflect the expected cash flows indicated by the Bank's deposit retention history.

31 December 2022 *In thousands of MNT*	**On demand**	**Less than 3months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Assets							
Cash and cash equivalents	1,794,774,691	2,582,324,566	–	–	–	–	4,377,099,257
Mandatory reserve	969,104,827	–	–	–	–	–	969,104,827
Gross settled swaps and forward:							
– Inflows	–	59,068,144	47,465,269	201,141,987	878,274,460	68,041,093	1,253,990,953
– Outflows	–	(45,150,343)	(40,200,785)	(170,593,113)	(805,649,362)	(63,737,102)	(1,125,330,705)
Loans and advances to customers at amortised cost	–	1,371,927,992	1,258,812,911	2,123,716,563	3,215,348,535	709,056,930	8,678,862,931
Loans and advances to customers at FVTPL	–	17,951,542	25,144,181	56,198,387	150,943,158	329,661,364	579,898,632
Investments in debt securities		61,184,691	621,856,577	120,782,772	618,328,015	615,974,229	2,038,126,284
Investments in equity securities	4,267,181	–	–	–	–	–	4,267,181
Other financial assets	–	2,703,046	–	–	–	–	2,703,046
Total financial assets	**2,768,146,699**	**4,050,009,638**	**1,913,078,153**	**2,331,246,596**	**4,057,244,806**	**1,658,996,514**	**16,778,722,406**
Liabilities							
Due to banks	15,884,992	175,370,767	–	–	–	–	191,255,759
Repurchase agreement	–	177,227,938	112,657,532	56,603,934	33,658,140	–	380,147,544
Due to customers	3,517,104,591	1,463,783,942	1,226,949,068	2,494,578,249	2,073,367,454	395,277,134	11,171,060,438
Derivative financial instruments	–	505,456	1,106,782	1,401,821	1,882,838	–	4,896,897
Borrowed funds	–	150,632,791	61,558,227	572,726,505	1,150,292,786	87,476,989	2,022,687,298
Other financial liabilities	–	135,162,720	–	–	–	–	135,162,720
Lease liabilities	–	2,593,267	2,462,448	4,534,349	5,927,116	–	15,517,180
Total financial liabilities	**3,532,989,583**	**2,105,276,881**	**1,404,734,057**	**3,129,844,858**	**3,265,128,334**	**482,754,123**	**13,920,727,836**
Undrawn credit lines	640,182,957	–	–	–	–	–	640,182,957
Guarantees issued	109,875,380	–	–	–	–	–	109,875,380
Letters of credit	24,667,537	–	–	–	–	–	24,667,537
Undrawn credit cards	61,741,646	–	–	–	–	–	61,741,646
Total off-balance items	**836,467,520**	–	–	–	–	–	**836,467,520**
Total financial liabilities and off balance liabilities	**4,369,457,103**	**2,105,276,881**	**1,404,734,057**	**3,129,844,858**	**3,265,128,334**	**482,754,123**	**14,757,195,356**
Net	**(1,601,310,404)**	**1,944,732,757**	**508,344,096**	**(798,598,262)**	**792,116,472**	**1,176,242,391**	**2,021,527,050**

36. Financial risk management (Continued)

36.6 Liquidity risk (Continued)

31 December 2021 *In thousands of MNT*	On demand	Less than 3months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	1,155,695,000	3,380,294,431	–	–	–	–	4,535,989,431
Mandatory reserves	809,081,732	–	–	–	–	–	809,081,732
Gross settled swaps and forward:							
– Inflows	–	95,770,717	8,587,669	117,611,915	291,001,298	–	512,971,599
– Outflows	–	(86,323,286)	(8,198,160)	(107,528,906)	(283,834,719)	–	(485,885,071)
Loans and advances to customers at amortised cost	–	1,029,214,448	991,746,895	1,612,403,633	3,248,818,033	540,432,799	7,422,615,808
Loans and advances to customers at FVTPL	–	27,500,669	31,215,298	78,033,382	308,892,273	365,373,415	811,015,037
Investments in debt securities	–	30,192,251	19,372,977	154,337,365	683,253,710	423,117,156	1,310,273,459
Other financial assets	–	24,652,197	–	–	–	–	24,652,197
Total financial assets	**1,964,776,732**	**4,501,301,427**	**1,042,724,679**	**1,854,857,389**	**4,248,130,595**	**1,328,923,370**	**14,940,714,192**
Liabilities							
Due to banks	29,305,284	6,581,769	–	–	–	–	35,887,053
Repurchase agreement	–	254,182,596	6,289,065	124,715,874	266,549,386	–	651,736,921
Due to customers	3,319,904,967	1,792,319,315	1,509,989,509	2,372,815,864	1,148,660,707	259,566,301	10,403,256,663
Derivative financial instruments	–	319,756	–	–	–	–	319,756
Borrowed funds	–	128,506,526	19,569,539	428,446,824	671,824,838	38,284,295	1,286,632,022
Other financial liabilities	–	90,811,930	–	–	–	–	90,811,930
Lease liabilities	–	1,052,469	1,078,634	2,188,835	6,765,757	–	11,085,695
Total financial liabilities	**3,349,210,251**	**2,273,774,361**	**1,536,926,747**	**2,928,167,397**	**2,093,800,688**	**297,850,596**	**12,479,730,040**
Undrawn credit lines	555,157,014	–	–	–	–	–	555,157,014
Guarantees issued	129,567,459	–	–	–	–	–	129,567,459
Letters of credit	26,247,091	–	–	–	–	–	26,247,091
Undrawn credit cards	75,618,760	–	–	–	–	–	75,618,760
Total off-balance items	**786,590,324**	**–**	**–**	**–**	**–**	**–**	**786,590,324**
Total financial liabilities	**4,135,800,575**	**2,273,774,361**	**1,536,926,747**	**2,928,167,397**	**2,093,800,688**	**297,850,596**	**13,266,320,364**
Net	**(2,171,023,843)**	**2,227,527,066**	**(494,202,068)**	**(1,073,310,008)**	**2,154,329,907**	**1,031,072,774**	**1,674,393,828**

36. Financial risk management (Continued)

36.6 Liquidity risk (Continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of MNT	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2022						
Financial assets	5,469,547,353	2,769,257,794	1,999,798,601	3,208,950,608	915,753,720	**14,363,308,076**
Financial liabilities	4,577,841,434	2,400,497,181	2,944,336,334	3,018,898,988	475,785,613	**13,417,359,550**
Net liquidity gap based on expected maturities	891,705,919	368,760,613	(944,537,733)	190,051,620	439,968,107	**945,948,526**
At 31 December 2021						
Financial assets	5,742,115,380	1,334,811,944	1,565,694,874	3,468,034,567	778,601,160	**12,889,257,925**
Financial liabilities	4,368,150,284	2,724,217,939	2,764,205,779	2,009,519,912	296,148,094	**12,162,242,008**
Net liquidity gap based on expected maturities	1,373,965,096	(1,389,405,995)	(1,198,510,905)	1,458,514,655	482,453,066	**727,015,917**

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

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

36.7 Effect of IBOR reform.

Reform and replacement of various inter-bank offered rates (‘IBORs’) has become a priority for regulators. Many IBOR rates stopped being published on 31 December 2021, while certain USD LIBOR rates would stop being published by 30 June 2023.
At the end of the reporting year all long term derivative instruments’ interest rates were based on a SOFR. Long term swap agreements with total notional amount of USD 211,744 thousand were transitioned from LIBOR to SOFR, while USD 141,250 thousand worth new long term swap agreements were conducted with BoM.

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

The table below shows the Bank’s exposure at the year end to significant IBORs subject to reform that have yet to transition to alternative RFRs. These USD LIBOR exposures will remain outstanding until the IBOR ceases and will therefore transition no later than immediately after 30 June 2023.

36. Financial risk management (Continued)

36.7 Effect of IBOR reform (Continued)

In thousands of MNT	**USD LIBOR**	**Total**
31 December 2022		
Non-derivative financial liabilities		
Borrowed funds	411,568,000	411,568,000
31 December 2021		
Non-derivative financial liabilities		
Borrowed funds	535,923,441	535,923,441
Derivative financial instruments		
Cross currency swaps: notional amounts	513,839,684	513,839,684

36.8. Operational risk

The Bank defines operational risk as an event affecting objectives and strategy of the Bank, caused by inadequate or failed internal processes, people of the Bank, or by external events. Operational risk includes following sub-categories:

- Internal fraud
- External fraud
- Employment breaches and health safety
- Product and service error and deficiency
- Damage to physical assets
- Business disruption
- Performance error and deficiency

Operational risk does not include legal, compliance risk, information security or information technology risk and these are managed separately as risk categories.

All departments and branch units in the first line of defence assume the responsibility for the day-to-day management of their operational risks.

In the second line of defence, Operational risk department has responsibility for developing and maintaining an effective operational risk management framework and relevant approaches. Operational risk department also provides guidance and supports the first line of defence in identifying, assessing, and mitigating risks.

In addition, Operational risk department prepares quarterly aggregated non-financial risk reports for review and decision by the Risk Committee of the Bank. The following sub-committees are operating at different levels of the Bank to manage and control operational risks in more depth:

- Operational Risk Sub-committee
- Card and Digital Banking Risk Sub-committee
- Branch Risk Committee

Internal audit, as the third line of defence, provides independent review regarding the first and second lines of defence activities.

Operational risk management is supported by the GRC system, which enables visibility and timely reporting of risk information. The primary operational risk methodologies include Risk and Control Self-Assessment (RCSA), Loss database, Issue management and Unit risk dashboard.
Branches and sub-branches of Retail Banking manage their daily operational risks by identifying and recording operational risks and taking risk mitigation measures according to the "Unit Riskboard" methodology.

36. Financial risk management (Continued)

36.8. Operational risk (Continued)

The Bank developed a plan for the core business processes and sub-processes, and in accordance with the recommendations of the Operational Risk Department, the staff of department and units in cooperation with relevant stakeholders, are implemented an RCSA methodology to identify, assess and mitigate process risks. Determined by the RCSA methodology, all identified risks, controls, and objectives were recorded in a coherent manner in the GRC system. Issues and loss events are recorded immediately basis and analyzed in the context of relevant risks, controls, processes, and products.

36.9. Legal and compliance risk

The Bank's Board of Directors and Executive Management pay great attention to the establishment of an effective compliance risk management system at the bank level, especially the implementation of laws against money laundering and terrorist financing and other relevant policies and procedures are approved and implemented at the bank level. Legal risk is the risk of a bank failing to comply with rules, regulations, and standards approved by regulatory organizations; failing to make relevant amendments to its valid contracts when new laws are introduced or when existing laws are amended; or when a legal case arises from a claim.

Compliance Department monitors the implementation of the above-mentioned policies and procedures, prepares monthly reports, and provides information to the Board of Directors and Executive Management, while providing regular training and information to all employees and authorized officials of the Bank.

Establishing an effective system of anti-money laundering and counter terrorist financing at the bank level has become an essential part of building the bank's resilience and ability to provide continuous and reliable customer service in line with the growing demands and expectations of international financial sanctions authorities, investors, and correspondent
banks.

The actions taken under the Compliance Program in 2022 are as follows:

- The Money laundering & terrorism financing (ML/TF) risk assessment of Khan Bank was conducted in areas of customers, products & services, geography, and systematic activities were carried out in line with the identified recommendations. Furthermore, Khan Bank’s ML/TF Risk Assessment Methodology was redrafted and introduced in line with international standards and local regulations.
- Compliance department re-developed Compliance Program 2023-2025 designed to ensure effective implementation of anti-money laundering & financial crimes, KYC, transaction monitoring and sanctions compliance activities.
- Bank’s sanctions screening tool was upgraded to better navigate the sanctions obligations mandated by the international covenants such as the Sanctions by United Nations Security Council and the local regulations.
  The upgrade enabled “smart screening” that reduced false positives/ negatives and “required similarity” that ensures the priority handling of alerts generated. This resulted in significant drop of hit ratio from 24.6% to 13.7% in 2022.
- Throughout the bank Ethical Banker campaign was successfully carried out for the second year. The campaign raises awareness on compliance & ethics to avoid risks of involvement in ML and financial crimes through delivery of timely trainings and information to the Board, executive management, and all employees. In addition, compliance officers have been attending internationally recognized trainings as part of subject matter expert development mission. As of 2022, over 10,462 employees in duplicated number have attended a total of 23 classroom and online trainings related to ML/TF risk prevention conducted by the Compliance Department.
- The scenarios configured in the transaction monitoring system, TCS Bancs Compliance were recalibrated in the line with regulatory expectations and international best practices and typologies. One of the changes include introduction of behavioural scenarios, before which only transaction-based scenarios existed.
- Branch escalation of suspicious transactions to Compliance was enhanced and replaced the old system of excel-based reports delivered via email. The enhancement reduced the time spent by branch staff while having systematic logging of suspicious activity reports. Therefore, manual work and man/hours of branch employee are reduced, and suspicious transactions and suspicious activity cases are more easily recorded.

36. Financial risk management (Continued)

36.10. Information security risk

The Bank manages and maintains information security risks that have a potential impact on business and information technology at a low level. In order to systematically identify, analyse, evaluate, mitigate and report information security risks, the Bank follows best practices under ISO31000 (Risk management - Principles and Guidelines) and ISO27005 (Information Security Risk Management) standards.

The Bank implemented an information security management system according to ISO27001:2013, the international standard for information security which emphasises the safeguarding of information assets and risk-based approach framework.

Information Security Risk Sub-committee regularly controls and discusses information security risks that may result potential damage in the event of loss of confidentiality, integrity, and availability of information assets by using the vulnerability of the information asset in order to effectively manage information security risks.

In 2022, Cyber Security Department performed Information security risk assessment on 74 departments and units of Head Office, as well as branches and sub-branches in UB and Rural area and identified information security risks which may occur within the scope of the activities and their information assets.

The Bank conducted Third party Information Security Risk Assessment remotely through a checklist for third parties who cooperate with the Bank under agreement. Within the scope of Information security risk assessment, third party agreement check is completed for 969 third parties and detailed assessment was conducted in a consolidated manner based on the area of activity. The results are registered in the third-party risk dashboard of Information Security Risk Subcommittee and the types of risk mitigation plans are selected and implemented.

In 2022, Cyber security department successfully completed regular internal audit in accordance with Requirements of ISO27001:2013 & PCI DSS v3.2.1 and information security policies and procedures. The audit covered 36 departments of Head office, 214 branches and units of UB and Rural Retail Banks.

Within the framework of the international audit of information security management system ISO27001: 2013 standard, certification audits have been conducted on departments and units of Head office, some branches, and units of UBRB and RURB and no major non-conformities have been observed.
International audit has been conducted within the framework of payment card industry data security standard PCI DSS v3.2.1 and successfully re-validated the Certificate that implements the standard controls.

In accordance with the GDPR Customer Personal Data Protection regulation, the scope was determined by meeting with 52 departments that work with customer personal data in the bank.
Business system user review was performed on a total of 30 systems.
Performed quarterly user reviews on all the systems managed by Cyber security department.

Information technology risk management

The Bank has Information Technology Risk Sub-Committee to efficiently manage its information technology related risks; and potential risks that may occur to the Bank’s systems and information technology operations are defined and mitigated. Pursuant to Information Technology Criteria of an organization that has become an international standard, we had performed a risk assessment to our information technology operations in a form of a questionnaire in year 2022. Also, we had performed a risk assessment to software development processes and tools used for such purpose in alignment to the Bank’s strategical goals and objectives. Furthermore, regular analysis of problems and incidents occurred in operations to ensure information technology service availability and business continuity is conducted in a timely manner each time it is found necessary. Risks identified with risk analysis and assessment tracked and managed on information technology risk dashboard for relevant countermeasures. Improvements have been introduced to methods of defining risk levels of information technology changes. We have focused on the high-level risks of information technology during the reporting year, and paid attention to efficiency and effectiveness of risk mitigation controls. In addition, Information Technology Risk Team has taken qualification training courses of international information technology risk management in year 2022 and obtained CRISC certificates

37. Fair value disclosures

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

37. Fair value disclosures (Continued)

(a) Recurring fair value measurements

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

	31 December 2022				31 December 2021			
In thousands of MNT	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investments in debt securities								
- Quoted bonds at fair value	186,302,687	-	-	**186,302,687**	206,007,659	-	-	**206,007,659**
- Senior RMBS, at fair value	-	-	74,849,224	**74,849,224**	-	-	36,536,559	**36,536,559**
- Junior RMBS, SFC at fair value	-	-	174,218,961	**174,218,961**	-	-	113,368,465	**113,368,465**
Investments in equity securities								
- Corporate shares	4,267,181	-	-	**4,267,181**	3,157,209	-	-	**3,157,209**
Loans and advances to customers at FVTPL	-	378,606,395	-	**378,606,395**	-	560,315,869	-	**560,315,869**
Derivative financial instruments	-	128,660,248	-	**128,660,248**	-	27,086,528	-	**27,086,528**
Other financial assets	-	-	-	**-**	21,768,134	-	-	**21,768,134**
NON-FINANCIAL ASSETS								
Premises and equipment	-	-	289,810,778	**289,810,778**	-	-	283,199,116	**283,199,116**
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	**190,569,868**	**507,266,643**	**538,878,963**	**1,236,715,474**	**230,933,002**	**587,402,397**	**433,104,140**	**1,251,439,539**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
Derivative financial instruments	-	4,896,897	-	**4,896,897**	-	319,756	-	**319,756**
TOTAL LIABILITIES WITH RECURRING FAIR VALUE MEASUREMENTS	**-**	**4,896,897**	**-**	**4,896,897**	**-**	**319,756**	**-**	**319,756**

37. Fair value disclosures (Continued)

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

In thousands of MNT	2022	2021	Valuation technique	Inputs used
ASSETS AT FAIR VALUE FINANCIAL ASSETS				
Loans and advances to customers at FVTPL	378,606,395	560,315,869	Market value approach	Market price/Own price
Derivative financial instruments	128,660,248	27,086,528	Interest rate parity analysis/ Modified discount curve	Repo rate, policy rate, 28week BoM bill rate, Z-spread, LIBOR rates, SOFR rates, futures and swap rates, adjusted forward rate
LIABILITIES CARRIED AT FAIR VALUE FINANCIAL LIABILITIES				
Derivative financial instruments	4,896,897	319,756	Interest rate parity analysis/ Modified discount curve	Bloomberg prices, BoM exchange rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**502,369,746**	**587,082,641**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2022 (31 December 2021: none).

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

In thousands of MNT	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reason-able change	Sensitivity of fair value measurement
ASSETS AT FAIR VALUE FINANCIAL ASSETS						
Investments in debt securities						
- Senior RMBS, at fair value	74,849,224	Market comparable	Market price/ Own price	100	1%	+/-748,492
- Junior RMBS, SFC at fair value	174,218,961	Market comparable	Market price/ Own price	100	1%	+/-1,742,190
NON-FINANCIAL ASSETS						
Premises and equipment	289,810,778	Depreciated replacement cost, market comparison	Market price per square metre with appropriate adjustments	2,895-7,940	10%	+/-28,981,077
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**538,878,963**					

37. Fair value disclosures (Continued)

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2021:

In thousands of MNT	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reason-able change	Sensitivity of fair value measurement
ASSETS AT FAIR VALUE						
FINANCIAL ASSETS						
Investments in debt securities						
- Senior RMBS, at fair value	36,536,559	Market comparable companies	Bond price with appropriate adjustments	100	1%	+/-365,366
- Junior RMBS, at fair value	113,368,465	Market comparable companies	Bond price with appropriate adjustments	100	1%	+/-1,133,685
NON-FINANCIAL ASSETS						
Premises and equipment	283,199,116	Depreciated replacement cost, market comparison	Market price per square metre with appropriate adjustments	2,118 – 11,732	10%	+/-28,319,912
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**433,104,140**					

The above tables disclose sensitivity to valuation inputs for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2022 (31 December 2021: none).

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2022 is as follows:

In thousands of MNT	Senior RMBS	Junior RMBS, SFC	Premises and equipment
Fair value at 1 January 2022	36,536,559	113,368,465	283,199,116
Depreciation charged in profit or loss	-	-	-
Addition	156,306,800	51,379,800	6,902,804
Disposal	(121,988,100)	-	(282,822)
Interest receivable	4,259,661	13,080,278	-
Interest payable	(265,696)	(3,609,582)	-
Write-offs	-	-	(8,320)
Fair value at 31 December 2022	**74,849,224**	**174,218,961**	**289,810,778**

37. Fair value disclosures (Continued)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2021 is as follows:

In thousands of MNT	Senior RMBS	Junior RMBS	Premises and equipment	Unquoted investments	Unquoted bonds
Fair value at 1 January 2021	8,290,518	102,422,285	273,610,643	2,327,261	42,117,133
FX difference recognized in profit or loss	-	-	-	(25)	-
Depreciation charged in profit or loss	-	-	(5,530,909)	-	-
Addition	67,768,300	7,397,100	15,616,891	-	-
Disposal	(41,054,900)	-	(491,893)	-	-
Unamortised discount	-	-	-	-	10,664,867
Repayment	-	-	-	-	(52,782,000)
Interest receivable	1,532,641	10,948,750	-	-	-
Interest payable	-	(7,399,670)	-	-	-
Write-offs	-	-	(5,616)	-	-
Fair value changes	-	-	-	(2,327,236)	-
Fair value at 31 December 2021	**36,536,559**	**113,368,465**	**283,199,116**	**-**	**-**

(b) Non-recurring fair value measurements

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

				Range of inputs (Weighted average)	
In thousands of MNT	**Fair value**	**Valuation technique**	**Inputs used**	**31 December 2022**	**31 December 2021**
Non-current assets held for sale (or disposal groups)	3,480,567	Depreciated replacement cost, market comparison	Market price per square metre with appropriate adjustments	2,895-7,940	-

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

Level 3 valuations are reviewed on an annual basis by the Bank’s Financial Management Department along with Property Management Department in case of premises and Market Risk Department in case of investment securities. The management of the Bank considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the financial services industry. In selecting the most appropriate valuation model the committee performs back testing and considers which model’s results have historically aligned most closely to actual market transactions.

37. Fair value disclosures (Continued)

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

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

	31 December 2022					31 December 2021				
In thousands of MNT	Level 1 fair value	Level 2 fair value	Level 3 fair value	Fair value	Carrying value	Level 1 fair value	Level 2 fair value	Level 3 fair value	Fair value	Carrying value
FINANCIAL ASSETS										
Cash and cash equivalents	212,128,736	4,161,283,465	-	4,373,412,201	4,373,412,201	186,773,015	4,340,206,964	-	4,526,979,979	4,526,979,979
Mandatory reserves with the Bank of Mongolia	-	969,104,827	-	969,104,827	969,104,827	-	809,081,732	-	809,081,732	809,081,732
Investments in debt securities	910,520,709	16,206,688	71,111,287	997,838,684	1,038,725,692	538,121,547	16,185,153	-	554,306,700	553,088,798
Loans and advances to customers	-	-	6,721,694,050	6,721,694,050	7,032,457,614	-	-	5,953,560,548	5,953,560,548	6,028,982,930
Investments in associates	-	-	283,589	283,589	283,589	-	-	301,888	301,888	301,888
Other financial assets	-	-	2,703,046	2,703,046	2,703,046	-	-	2,884,063	2,884,063	2,884,063
TOTAL	**1,122,649,445**	**5,146,594,980**	**6,795,791,972**	**13,065,036,397**	**13,416,686,969**	**724,894,562**	**5,165,473,849**	**5,956,746,499**	**11,847,114,910**	**11,921,319,390**

37. Fair value disclosures (Continued)

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

	31 December 2022					31 December 2021				
In thousands of MNT	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Fair value**	**Carrying value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Fair value**	**Carrying value**
FINANCIAL LIABILITIES										
Due to other banks	-	191,080,282	-	191,080,282	191,080,282		35,854,280	-	35,854,280	35,854,280
Repurchase agreements	-	367,267,329	-	367,267,329	367,267,329		620,802,675	-	620,802,675	620,802,675
Customer accounts	-	10,884,102,500	-	10,884,102,500	10,930,788,356	-	10,245,689,117	-	10,245,689,117	10,211,450,727
Borrowed funds	-	1,743,845,236	-	1,743,845,236	1,776,932,717	-	1,191,998,551	-	1,191,998,551	1,191,916,946
Other financial liabilities	-	-	128,955,771	128,955,771	128,955,771	-	-	84,937,825	84,937,825	84,937,825
Provision for credit related commitments	-	-	6,206,949	6,206,949	6,206,949	-	-	5,874,105	5,874,105	5,874,105
TOTAL	**-**	**13,186,295,347**	**135,162,720**	**13,321,458,067**	**13,401,231,404**	**-**	**12,094,344,623**	**90,811,930**	**12,185,156,553**	**12,150,836,558**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

38. Related party disclosures

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In the normal course of business, the Bank and the Bank enters into transactions with its major shareholders, directors and other related parties. These transactions include settlements, issuance of loans, deposit taking, guarantees, other borrowed funds and Letter of credits. According to the Bank's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

Related party categories are as follows:

Ultimate and Immediate parent company:	HS Holding Co. Ltd is the main shareholder of the Bank, refer to Note 1.
Other significant shareholder:	Tavan Bogd Trade Co. Ltd is the significant shareholder of the Bank.
Key management personnel:	Executive managers and Board of Directors of the Bank**.**
Other related parties:	Entities controlled by parent company and significant shareholders.

For information on the Bank's immediate and ultimate parent company, as well as ultimate controlling party as of 31 December 2022 and 31 December 2021, refer to Note1.

At 31 December 2022, the outstanding balances with related parties were as follows:

In thousands of MNT	**Immediate parent company**	**Other significant shareholder**	**Key management personnel**	**Other related parties**
Loans and advances to customers (contractual interest rate: 2.4% – 18%)	-	-	2,371,287	48,447,881
Receivables	-	86,632	-	-
Long-term swaps (fair value)	-	4,264,836	-	-
Deposit accounts (contractual interest rate: 0.0% – 13.3 %)	172,729	37,857	6,775,216	27,950,906
Other borrowed funds (contractual interest rate: 1.20% – 1.67%)	60,173,259	-	-	-
Share capital owned under ESPP	-	-	608,838	-

The income and expense items with related parties for 2022 were as follows:

In thousands of MNT	**Immediate parent company**	**Other significant shareholder**	**Key management personnel**	**Other related parties**
Interest income	-	112,475	168,953	1,718,270
Interest expense	1,049,971	-	284,007	361,500
Operating expenses	-	624,054	-	42,984,649

Operating expenses included rent, maintenance of ATMs, vehicles and other service expenses.

At 31 December 2022, other rights and obligations with related parties were as follows:

In thousands of MNT	**Immediate parent company**	**Other significant shareholder**	**Key management personnel**	**Other related parties**
Irrevocable undrawn credit lines	-	-	289,527	134,212
Approved limits	-	8,345	-	-
Guarantees issued	-	-	-	2,731,036
Letter of credits	-	-	-	1,288,310

38. Related party disclosures (Continued)

At 31 December 2021, the outstanding balances with related parties were as follows:

In thousands of MNT	Immediate parent company	Other significant shareholder	Key management personnel	Other related parties
Loans and advances to customers (contractual interest rate: 2.4% – 24%)	-	-	1,713,723	3,616,616
Receivables	-	86,632	-	-
Deposit accounts (contractual interest rate: 0.0% – 13.3 %)	8,329,057	7,763	18,186,903	92,006,565
Other borrowed funds (contractual interest rate: 3.15% – 4.66%)	77,889,459	-	-	-

The income and expense items with related parties for 2021 were as follows:

In thousands of MNT	Immediate parent company	Other significant shareholder	Key management personnel	Other related parties
Interest income	-	377,462	116,245	2,138,641
Interest expense	3,889,441	-	632,889	2,246,364
Operating expenses	-	608,236	-	39,605,842

At 31 December 2021, other rights and obligations with related parties were as follows:

In thousands of MNT	Immediate parent company	Other significant shareholder	Key management personnel	Other related parties
Irrevocable undrawn credit lines	-	100	210,632	6,080
Approved limits	-	1,859,843	-	-
Guarantees issued	-	245,421	-	352,461
Letter of credits	-	-	-	3,173,171

Key management compensation is presented below:

In thousands of MNT	2022	2021
Short-term benefits:		
- Salaries and other allowances	9,902,471	6,386,103
- Short-term bonuses	1,237,809	747,916
Total	**11,140,280**	**7,134,019**

39. Maturity analysis of assets and liabilities

The table shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 36 'Liquidity risk and funding management' for the Bank's contractual undiscounted repayment obligations for financial assets and liabilities.

At 31 December 2022

In thousands of MNT	**Less than 12 months**	**More than 12 months**	**Total**
Financial assets			
Cash and cash equivalents	4,373,412,201	–	4,373,412,201
Mandatory reserves with Bank of Mongolia	969,104,827	–	969,104,827
Derivative financial instruments	51,731,160	76,929,088	128,660,248
Loans and advances to customers at AC	4,039,870,175	2,992,587,439	7,032,457,614
Loans and advances to customers at FVTPL	77,042,788	301,563,607	378,606,395
Investments in debt securities	720,472,369	753,624,195	1,474,096,564
Investments in equity securities	4,267,181	–	4,267,181
Other financial assets	2,703,046	–	2,703,046
Total	**10,238,603,747**	**4,124,704,329**	**14,363,308,076**
Non-financial assets			
Investments in associates	283,589	–	283,589
Other assets	73,658,397	–	73,658,397
Property and equipment	–	455,493,746	455,493,746
Intangible asset	–	46,286,024	46,286,024
Right of use assets	6,450,464	3,752,483	10,202,947
Non-current assets classified as held for sale	3,480,567	-	3,480,567
Total	**83,873,017**	**505,532,253**	**589,405,270**
Total	**10,322,476,764**	**4,630,236,582**	**14,952,713,346**
Financial liabilities			
Due to other banks	191,080,282	–	191,080,282
Repurchase agreement	336,370,023	30,897,306	367,267,329
Customer accounts	8,516,017,213	2,414,771,143	10,930,788,356
Derivative financial instruments	3,014,059	1,882,838	4,896,897
Borrowed funds	734,089,415	1,042,843,302	1,776,932,717
Other liabilities	135,162,720	–	135,162,720
Lease liabilities	6,941,236	4,290,013	11,231,249
Total	**9,922,674,948**	**3,494,684,602**	**13,417,359,550**
Non-financial liabilities			
Other liabilities	11,320,489	–	11,320,489
Current income tax liabilities	3,957,990	–	3,957,990
Deferred tax liabilities	–	4,709,251	4,709,251
Total	**15,278,479**	**4,709,251**	**19,987,730**
Total	**9,937,953,427**	**3,499,393,853**	**13,437,347,280**
Net	**384,523,337**	**1,130,842,729**	**1,515,366,066**

39. Maturity analysis of assets and liabilities (Continued)

At 31 December 2021

In thousands of MNT	Less than 12 months	More than 12 months	Total
Financial assets			
Cash and cash equivalents	4,526,979,979	–	4,526,979,979
Mandatory reserves with Bank of Mongolia	809,081,732	–	809,081,732
Derivative financial instruments	19,919,948	7,166,580	27,086,528
Loans and advances to customers at amortised cost	3,015,158,422	3,013,824,508	6,028,982,930
Loans and advances to customers at FVTPL	102,309,742	458,006,127	560,315,869
Investments in debt securities	141,362,969	767,638,512	909,001,481
Investments in equity securities	3,157,209	–	3,157,209
Other financial assets	24,652,197	–	24,652,197
Total	**8,642,622,198**	**4,246,635,727**	**12,889,257,925**
Non-financial assets			
Investments in associates	301,888	–	301,888
Other assets	53,442,633	–	53,442,633
Property and equipment	–	455,595,092	455,595,092
Intangible asset	–	54,764,803	54,764,803
Right of use assets	4,523,515	5,563,138	10,086,653
Total	**58,268,036**	**515,923,033**	**574,191,069**
Total	**8,700,890,234**	**4,762,558,760**	**13,463,448,994**
Financial liabilities			
Due to banks	35,854,280	–	35,854,280
Repurchase agreement	360,476,946	260,325,729	620,802,675
Due to customers	8,813,782,247	1,397,668,480	10,211,450,727
Derivative financial instruments	319,756	–	319,756
Borrowed funds	551,008,907	640,908,039	1,191,916,946
Other liabilities	90,811,930	–	90,811,930
Lease liability	4,319,937	6,765,758	11,085,695
Total	**9,856,574,003**	**2,305,668,006**	**12,162,242,009**
Non-financial liabilities			
Other liabilities	9,949,164	–	9,949,164
Income tax liabilities	2,167,852	–	2,167,852
Deferred tax liabilities	–	4,579,593	4,579,593
Total	**12,117,016**	**4,579,593**	**16,696,609**
Total	**9,868,691,019**	**2,310,247,599**	**12,178,938,618**
Net	**(1,167,800,785)**	**2,452,311,161**	**1,284,510,376**

40. Capital adequacy

The adequacy of the Bank's capital is monitored using the rules and ratios established by BoM. During 2022 and 2021, 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% (2021: 9%) and risk weighted capital ratio of at least 13% (2021: 12%) compiled on the basis of total capital and total assets as adjusted for their intrinsic risk characteristics.

Based on information provided internally to key management, the Bank has complied with all externally imposed capital requirements as of 31 December 2022 and at the end of 2021 and the capital adequacy ratios of the Bank as at 31 December were as follows:

In thousands of MNT	**31 December 2022**	**31 December 2021**
Core capital adequacy ratio	16.69%	15.58%
Risk-weighted capital ratio	16.69%	15.58%

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

In thousands of MNT	**31 December 2022**	**31 December 2021**
Ordinary shares	172,097,820	172,097,820
Retained earnings	1,268,756,786	1,018,133,731
Total Tier I Capital	1,440,854,606	1,190,231,551
Total capital /capital base	**1,440,854,606**	**1,190,231,551**

41. Events after the reporting date

On 22 March 2023, the Bank has obtained approval from the Bank of Mongolia for distribution of a dividend in amount of MNT 180,703,711 thousand to its existing shareholders in proportion to their ownership, which was declared on 17 February 2023.

The Bank has issued green bonds in amount of USD 60 million (USD 35 million from FMO, USD 15 million from IFC and USD 10 million from MicroVest). The green bond has 5-year term and will be utilized for Bank's lending to environmental projects in the renewable energy, energy efficiency and climate-smart agriculture in Mongolia.

In March 2023, the US government's Federal Deposit Insurance Corporation (FDIC) took control of Silicon Valley Bank (SVB) of the United States and shut down Signature Bank after a run on its deposits by customers who were spooked by the implosion of SVB. Both banks had an unusually high ratio of uninsured deposits to fund their businesses. The failure of the two banks is negatively impacting the other banks worldwide including Credit Suisse Bank of Switzerland. The Bank has not experienced any significant impact from the event as of the issuance of these financial statements. However, this is still an evolving situation and management is continuously monitoring the impact and will take all steps possible to mitigate any effects.

Management is not aware of other events that occurred after the end of the reporting period, which would have any impact on these financial statements.

42. 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.