Financial Statements and Independent Auditor's Report

KHAN BANK JSC

31 December 2023

CONTENTS

Independent Auditor's Report

To the Shareholders of Khan Bank JSC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Khan Bank JSC (the "Bank") as at 31 December 2023, and the Bank's financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information 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.

Our audit approach

Overview

Materiality	• Overall Bank materiality: Mongolian Tugriks ("MNT") 36,000,000 thousands, which represents approximately 5% of profit before tax.
Key audit matters	• Estimations of expected credit losses allowance for loans and advances to customers

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

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

Materiality

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

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

Overall Bank materiality	MNT 36,000,000 thousands
How we determined it	Approximately 5% of profit before tax for the year ended 31 December 2023
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by users and is a generally accepted benchmark. We set the materiality level at 5% of profit before tax which is consistent with quantitative materiality thresholds used for profit-oriented entities in this sector.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit loss (ECL) allowance for loans and advances to customers We considered ECL allowance for loans and advances to customers as a key audit matter due to the significance of the balance of loans and advances to customers and complexity of International Financial Reporting Standard 9 "Financial instruments" (IFRS 9), which requires significant judgement to determine the ECL allowance. The Bank performed ECL assessment: ● on an individual basis for the following types of loans: (i) Loans with gross value of above MNT 2,000,000 thousands and with more than 30 days past due or restructured; (ii) Loans with gross value of above MNT 1,000,000 thousands and included in "Watchlist" as per the Bank's internal grading, and ● on a portfolio basis for all other loans: where the same credit risk parameters (e.g. probability of default, loss given default) were applied during the process of ECL calculations for the same homogeneous segments of the loan portfolio. Key areas of judgement included: ● Classification of loans and advances to customers into stages in accordance with IFRS 9; ● Key estimates and modelling assumptions used to estimate key risk parameters – probability of default, loss given default, exposure at default, forward looking macroeconomic scenarios and their probability weighting. Note 4 "Critical Accounting Estimates and Judgements in Applying Accounting	In assessing the ECL allowance we have performed, among others, the following audit procedures: With regards to the whole portfolio: ● With the involvement of the auditor's financial risk modelling expert team, we assessed the methodology and models for ECL allowance assessment developed by the Bank in order to evaluate its compliance with IFRS 9 requirements. We focused our procedures on: default definition, factors for determining a significant increase in credit risk, classification of the loans and advances to customers to stages, and estimation of key risk parameters including probability of default, loss given default and exposure at default. ● We evaluated and tested the design and operational effectiveness of the controls on the processes that identify overdue loans on a sample basis. ● We tested allocation of loans to stages and segmentation of loans on a sample basis. ● On an overall basis we checked the Bank's assessment of effect of forward looking information on the ECL level, in particular, we assessed forecasted macroeconomic variables and associated weighting in multiple economic scenarios (such as GDP, policy rate, unemployment rate, and changes in exchange rates), traced input data to the external sources and checked appropriateness of the model used; ● We performed analytical procedures over ECL calculation disaggregated by stages, segmentation, and industries that borrowers operate in. For the loan portfolio individually assessed for ECL: ● For those collateralised loans assessed individually, on a sample basis, we assessed

Policies", Note 13 "Loans and Advances to Customers" and Note 37 "Financial Risk Management" to the financial statements provide detailed information on the credit loss allowance.	valuation of collaterals taken into account in the calculation of ECL. • For those uncollateralised loans assessed individually, on a sample basis we assessed reasonableness of the Bank's estimated recoveries from future cash flows from various scenarios and key assumptions . We assessed the relevance of the scenarios used and their probability, and reperformed calculation of the present value of the cash flows. We considered trends in the economy and industries in which the Bank's borrowers operate. For the loan portfolio collectively assessed for ECL: • We verified accuracy of data, including historical data (probability of default, recovery rate, restructured loans, exposure at default and staging) used in the ECL calculation, on a sample basis. We tested the data by reconciling to source data, eg. loan agreements, collateral agreements and loan account statements. • On a sample basis, we tested mathematical accuracy of of ECL calculation. We also assessed the adequacy and appropriateness of the disclosures in the Bank's financial statements.

Other information

Management is responsible for the other information. The other information comprises the Annual Report for the year ended 31 December 2023 (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual Report for the year ended 31 December 2023, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Signed by:

ПРАЙСУОТЕРХАУСКУПЕРС АУДИТ ХХК

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:

Aigul Akhmetova
Partner
PricewaterhouseCoopers Audit LLC

7 March 2024

Ulaanbaatar, Mongolia

GENERAL INFORMATION

BOARD OF DIRECTORS	Mrs. Daribum Tudev Mrs. Khulan Dashdavaa Mr. Harada Yasunari Mr. Baatarsaikhan Tsagaach Mr. Kisaburo Ishii Mr. John Law Mr. Amarsanaa Batbold Mr. Aart Jongejans Mr. Tamir Amarbayasgalan
CORPORATE SECRETARY	Mr. Ariuntulga Ochirpurev
REGISTERED OFFICE	Khan Bank Tower Chinggis 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
FVOCI	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
MDB	Multilateral Development Bank
CCSwaps	Cross Currency Swaps

In thousands of MNT	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	7	4,957,727,074	4,373,412,201
Mandatory reserves with the Bank of Mongolia	8	1,090,955,256	969,104,827
Due from other banks	9	13,728,242	-
Investments in debt securities	10	1,602,635,724	1,474,096,564
Investments in equity securities	10	4,970,548	4,267,181
Derivative financial instruments	12	47,260,829	128,660,248
Loans and advances to customers	13	9,016,974,855	7,411,064,009
Investments in associates	11	283,589	283,589
Other assets	14	107,703,252	76,361,443
Intangible assets	16	43,529,294	46,286,024
Right-of-use assets	17	12,115,097	10,202,947
Properties and equipment	15	452,369,173	455,493,746
Non-current assets classified as held for sale	18	389,140	3,480,567
TOTAL ASSETS		**17,350,642,073**	**14,952,713,346**
LIABILITIES			
Due to other banks	19	228,123,208	191,080,282
Repurchase agreements	20	60,182,082	367,267,329
Customer accounts	21	12,378,271,995	10,930,788,356
Derivative financial instruments	12	5,698,552	4,896,897
Debt securities in issue	22	223,998,582	-
Other borrowed funds	23	2,121,721,870	1,776,932,717
Current income tax liabilities	32	27,366,766	3,957,990
Deferred income tax liabilities	32	8,855,501	4,709,251
Lease liabilities	17	13,036,341	11,231,249
Other liabilities	24	191,651,815	146,483,209
TOTAL LIABILITIES		**15,258,906,712**	**13,437,347,280**
EQUITY			
Ordinary shares	25	191,219,800	172,097,820
Share premium	25	164,257,808	-
Retained earnings		1,649,038,593	1,268,756,786
Other reserves	25	87,219,160	74,511,460
TOTAL EQUITY		**2,091,735,361**	**1,515,366,066**
TOTAL LIABILITIES AND EQUITY		**17,350,642,073**	**14,952,713,346**

Approved for issue and signed on behalf of the Bank's management on the 07th of March 2024.

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

The notes set out on pages 8 to 98 form and integral part of these financial statements.

In thousands of MNT	Notes	2023	2022
Interest income calculated using the effective interest method	26	1,864,815,193	1,327,391,147
Other similar interest income	26	43,414,439	39,974,535
Interest expense	27	(804,766,104)	(475,870,927)
Other similar interest expense	27	(16,042,582)	(5,213,387)
Net margin on interest and similar income		**1,087,420,946**	**886,281,368**
Credit loss allowance	30	(92,761,247)	(143,514,238)
Net margin on interest and similar income after credit loss allowance		**994,659,699**	**742,767,130**
Fee and commission income	28	281,634,353	263,466,643
Fee and commission expense	28	(59,690,761)	(47,787,841)
Gains from modification of borrowed fund at AC		-	2,275,457
Net (losses)/gains from financial derivatives	29	(12,604,013)	15,878,389
Gains less losses from trading in foreign currencies		30,272,682	32,799,045
Foreign exchange translation gains less losses		1,429,362	6,574,939
Net gains/(losses) from debt securities at FVOCI		1,746,029	(900,167)
Gains less losses from debt securities at AC		1,133,461	-
Gains less losses from debt securities at FVTPL		1,010,247	-
Net gains/(losses) from modification of financial assets at AC		5,426,968	(7,225,649)
Losses from financial assets at FVTPL		-	(9,019,495)
Other operating income		3,063,375	4,317,634
Operating expenses	31	(502,737,833)	(412,043,205)
Other losses, net		(2,585,247)	(269,656)
Profit before tax		**742,758,322**	**590,833,224**
Income tax expense	32	(183,975,449)	(142,061,025)
Profit for the period		**558,782,873**	**448,772,199**
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Investments in debt securities at FVOCI:			
Net gains/(losses) on revaluation		10,956,422	(14,032,658)
Net (losses)/gains reclassified to profit or loss upon disposal		(1,746,029)	900,167
Cash flow hedge reserve		10,253,377	(11,666,472)
Income tax recorded directly in OCI		(4,865,942)	6,199,740
Items that will not be reclassified to profit or loss:			
Gains less losses on investments in equity securities at FVOCI		415,356	1,109,972
Income tax recorded directly in OCI		(103,839)	(277,492)
Other comprehensive income/(loss) for the year		**14,909,345**	**(17,766,743)**
Total comprehensive income for the year		**573,692,218**	**431,005,456**
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in MNT per share)	33	**307**	**261**

The notes set out on pages 8 to 98 form and integral part of these financial statements.

In thousands of MNT	Ordinary shares	Share premium	Revaluation reserve on investments at FVOCI	Cash flow hedge reserve	Revaluation reserve for premises	Retained earnings	Total equity
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 loss	–	–	(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 25)	–	–	–	–	–	(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**
At 1 January 2023	**172,097,820**	**–**	**(3,452,623)**	**(10,420,015)**	**88,384,098**	**1,268,756,786**	**1,515,366,066**
Profit for the year	–	–	–	–	–	558,782,873	**558,782,873**
Other comprehensive income	–	–	7,219,312	7,690,033	–	–	**14,909,345**
Total comprehensive income	**–**	**–**	**7,219,312**	**7,690,033**	**–**	**558,782,873**	**573,692,218**
Changes in equity (Note 25)	19,121,980	164,257,808	–	–	–	–	**183,379,788**
Dividends (Note 25)	–	–	–	–	–	(180,702,711)	**(180,702,711)**
Realised revaluation reserve	–	–	–	–	(2,201,645)	2,201,645	**–**
At 31 December 2023	**191,219,800**	**164,257,808**	**3,766,689**	**(2,729,982)**	**86,182,453**	**1,649,038,593**	**2,091,735,361**

In thousands of MNT	**Notes**	**2023**	**2022**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		742,758,322	590,833,224
Adjustments to reconcile profit before tax to net cash flow:			
Changes in fair value of financial derivatives		12,604,013	(15,878,389)
Expected credit loss (ECL) expense	**30**	92,761,247	143,514,238
Net charge /(reversal) impairment for repossessed collaterals		4,228,559	(78,812)
Depreciation of property and equipment	**31,15**	55,676,503	54,489,263
Amortisation of intangible assets	**31,16**	18,292,815	20,643,564
Depreciation of rights of use assets	**31,17**	8,438,579	7,623,736
Property and equipment written-off	**15**	988,660	749,553
Intangible asset written-off	**16**	-	4,349,666
Net (gains)/losses from disposal of property and equipment		(514,314)	71,960
Net (gains)/losses disposal of financial assets at FVOCI		(1,746,029)	900,167
Gains less losses from disposal of debt securities at AC		(1,133,461)	-
Gains less losses from debt securities at FVTPL		(1,010,247)	-
Net (gains)/losses from modification of financial assets at AC		(5,426,968)	7,225,649
Losses from financial assets at FVTPL		-	9,019,495
Gains from modification of borrowed fund at AC		-	(2,275,457)
Gains less losses foreign exchange translation		(1,429,362)	(6,574,939)
Interest and similar income		(1,908,229,632)	(1,367,365,682)
Interest and similar expense		820,808,686	481,084,314
Cash flow used in operating activities before changes in operating assets and liabilities		**(162,932,629)**	**(71,668,450)**
Net (increase)/decrease in:			
- mandatory reserves with the BoM		(120,508,368)	(161,373,304)
- loans and advances to customers		(1,994,603,698)	(1,398,527,921)
- due from other banks		(13,300,000)	-
- other assets		(37,972,735)	(4,430,702)
- debt securities at FVTPL		204,952,000	121,988,100
Net increase in:			
- due to other banks		36,721,366	155,142,345
- customer accounts		1,378,733,751	757,138,330
- other liabilities		38,840,691	45,389,272
Net cash used in operating activities before tax and interest		**(670,069,622)**	**(556,342,330)**
Interest received		1,884,182,577	1,383,136,022
Interest paid		(630,826,313)	(482,696,702)
Income tax paid	**32.3**	(161,390,205)	(134,218,981)
Net cash flows generated from operating activities		**421,896,437**	**209,878,009**
Cash flows from investing activities			
Acquisition of equity securities		(288,011)	-
Proceeds from disposal of associate		-	18,299
Acquisition of debt securities at FVOCI		(76,036,641)	(56,035,308)
Proceeds from disposal of debt securities at FVOCI		146,547,043	92,355,896
Acquisition of debt securities at AC		(745,055,624)	(467,570,524)
Proceeds from redemption of debt securities at AC		682,276,387	281,893,933
Proceeds from disposal of property and equipment		712,739	1,717,306
Acquisition of property and equipment	**15**	(53,739,014)	(56,926,734)
Acquisition of intangible assets	**16**	(15,536,085)	(16,514,451)
Net cash flows used in investing activities		**(61,119,206)**	**(221,061,583)**

In thousands of MNT	Notes	2023	2022
Cash flows from financing activities			
Proceeds from repo agreements	**20**	958,913,403	3,801,304,742
Repayment of repo agreements	**20**	(1,271,488,927)	(4,071,420,232)
Proceeds from drawdown of other borrowed funds	**23**	957,358,478	959,412,011
Repayment of other borrowed funds	**23**	(616,157,388)	(560,785,101)
Proceed from debt securities issued		226,762,400	-
Repayment of principal portion of lease liabilities	**17**	(8,410,670)	(7,633,424)
Issue of ordinary shares and share premium		183,379,788	-
Dividend paid	**25**	(180,702,711)	(200,149,766)
Net cash flows used in financing activities		**249,654,373**	**(79,271,770)**
Effect of exchange rate changes on cash and cash equivalents		(27,272,253)	(62,181,031)
Credit loss allowance during the year on cash and cash equivalents	**7**	1,155,522	(931,403)
Net decrease in cash and cash equivalents		**584,314,873**	**(153,567,778)**
Cash and cash equivalents brought forward	**7**	4,373,412,201	4,526,979,979
Cash and cash equivalents carried forward	**7**	**4,957,727,074**	**4,373,412,201**

1. Introduction

KHAN Bank JSC (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:

- Monetary deposits,
- payment and settlement services;
- issuing bank guarantees and warranties to third parties in its own name;
- purchase, sale, deposit and placing of foreign currencies;
- purchase, sale, deposit and placing of precious metals and stones;
- safekeeping of valuables;
- conducting foreign remittance services;
- issuance, purchase and sale of securities;
- financial leasing;
- sale and purchase of loans and other financial instruments;
- insurance intermediary (sales agent) services;
- specific securities registration;
- securities custodian;
- factoring services; and
- other financial services permitted by the applicable laws and regulations, including regulations of the BOM, and duly authorized by the BOM and/or the FRC.

The Bank was incorporated and is domiciled in Mongolia. The Bank is a joint stock company, listed on Mongolian Stock Exchange. Its registered office is at Khan Bank Tower, Chinggis Avenue 6, Stadium Orgil -1, Khan-Uul district, Ulaanbaatar - 17010, Mongolia.

The Bank has launched an initial public offering (IPO) of its 10% shares on the Mongolian Stock Exchange (MSE) between 13 and 19 April 2023. As a result of the IPO, HS Holdings Co., Ltd has lost its control over the Bank and has become the main shareholder of the Bank as of 31 December 2023. Tavan Bogd Trade Co. Ltd is the other significant shareholder of the Bank as of 31 December 2023 and 31 December 2022. Please refer to Note 25.

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 contracted amid the adverse impact of the COVID-19 pandemic, posting 4.6% economic decline in 2020 and then has experienced slight recovery since 2021. The GDP growth in 2023 was 6.9% (2022 was 4.8%), which was driven by increased exports of the mining sector caused by lifted border restrictions from China and growing non-mining sector.

On 27 July 2023, Standard & Poor's credit rating reaffirmed Mongolia's credit rating at "B" with a stable outlook. On 06 September 2023, Moody's credit rating for Mongolia stayed at B3 stable outlook. On 15 May 2023, Fitch's credit rating for Mongolia was last reported at B with stable outlook.

The Mongolian economic growth is expected to continue to recover with forecast GDP growth of 6.2% for 2024. The growth is expected to be driven by mining and exports expansion, post-pandemic recovery in services, and household consumption. The inflation rate decreased from 13.2% as at the end of the year 2022 to 7.9% as of the end of the year 2023. However, domestic demand pressures are expected to keep inflation elevated due to easing external supply related pressure. Also, with the Russian-Ukrainian conflict continuing the Bank has taken necessary measures to minimize its exposure at Russian banks and the Russian economy and regularly updates its sanctions list and screening system. 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.

The Bank of Mongolia has kept the policy rate unchanged at 13% throughout 2023. Mongolian national currency, Mongolian tugriks has slightly appreciated against US Dollar by 1% as of 31 December 2023 (MNT 3,410.69) compared to the exchange rate as of 31 December 2022 (MNT 3,444.60).

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 37 provide more information of how the Bank incorporated forward-looking information in the ECL models.

3. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") under the historical cost convention, as modified by the initial recognition of financial instruments 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 ("FVOCI"). 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.

Going concern. Management prepared these financial statements on a going concern basis.

On 29 January 2021 the Parliament of Mongolia enacted Amendments to the Banking Law (the Banking law"). The Implementation Law of the Banking Law (the Implementation Law) specified that all domestic systemically important banks are required to change into public entities by 30 June 2023 and all banks are required to reduce maximum single ownership concentration to 20%, by 31 December 2023.

Even though the Bank has successfully launched its initial public offering (IPO) on the Mongolian Stock Exchange, fulfilling the second requirement within the specified timeframe has proven to be challenging not only for the Bank, but also for all other systemically important banks in the market. In response to this, the Bank of Mongolia established a working group and submitted a draft law to the Government of Mongolia proposing an extension of the specified deadline until the end of 2026, for reducing the maximum ownership of any separate individual or group of related parties to 20%. It is expected that the amendments to the law will be discussed during the upcoming parliamentary spring session commencing on 15 March 2024.

Whilst the dilution of the current major shareholders shareholdings down to a maximum of 20% is outside the power of the Management, Management understand that the shareholders are aware of this matter and are considering all reasonable options to ensure compliance with the legislation. The management of the Bank takes all possible actions working together with the regulator, working group for the amendments of the law and the banking association and is of the position that there will be a positive outcome from the parliamentary hearings on amendments to the law. Despite technically being in breach of the law at present, no actions or requirements have been made of the bank to rectify this whilst the work is underway to extend the deadline. In the event of non-compliance, the Bank of Mongolia can impose various actions and sanctions which include limiting the shareholders' certain rights to 20%. Those measures may include the extent of voting rights and capping dividends for the 20% ownership only. For continued non-compliance the sanctions can be even more restrictive not only to the shareholders but to the bank also. The different sanctions envisaged in the Implementation law for the Bank, are set out in Article 6.

Given the very systemic nature of the issue and the regulatory and government support for the extension of the law, as mentioned above, the management of the Bank firmly believes that the parliament will pass the extension of the deadline to the Banking Law from 2023 to 2026 and thus the Bank will be in compliance of the law through the remainder of 2024 or in 2025 even if no change in shareholders takes place during that time. Management conclude that this does not represent a significant risk of a material uncertainty of applying the going concern basis of accounting.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 37 for analysis of financial instruments by their maturity. Refer to Note 41 for information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items that are not analysed in Note 37.

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

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 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 79% (31 December 2022: 83%) 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. Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

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.

4.3. 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.
- Loans classified as “Watch list” according to the Credit risk prevention procedure.
- Economic sector that is considered to sector or regional concentration risk

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 107,504,484 thousands as of 31 December 2023 (31 December 2022: higher by MNT 52,325,053 thousands).

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 37):

- 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;
- propability of default ("PD")
- 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 2023:

Variable	Scenario	Assigned weight	Assumptions
GDP growth	Optimistic	22.3%	9.1%
	Base	58.5%	5.9%
	Severe	19.2%	2.7%
Policy rate	Optimistic	22.3%	9.0%
	Base	58.5%	11.5%
	Severe	19.2%	14.0%
Unemployment rate	Optimistic	22.3%	5.4%
	Base	58.5%	7.1%
	Severe	19.2%	8.8%
MNT/USD YoY growth	Optimistic	22.3%	-5.1%
	Base	58.5%	4.7%
	Severe	19.2%	14.5%

The assumptions and assigned weights were as follows at 31 December 2022:

Variable	Scenario	Assigned weight	Assumptions
GDP growth	Optimistic	19.2%	7.7%
	Base	58.5%	4.3%
	Severe	22.3%	1.0%
Inflation	Optimistic	19.2%	5.3%
	Base	58.5%	8.8%
	Severe	22.3%	12.1%
Policy rate	Optimistic	19.2%	10.9%
	Base	58.5%	13.0%
	Severe	22.3%	15.1%
Unemployment rate	Optimistic	19.2%	5.9%
	Base	58.5%	7.5%
	Severe	22.3%	9.1%
MNT/USD YoY growth	Optimistic	19.2%	-3.2%
	Base	58.5%	6.6%
	Severe	22.3%	16.5%

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 1,378,598 thousands at 31 December 2023 (31 December 2022: by MNT 4,295,584 thousands).

A 10% increase in PD estimates would result in an increase in total expected credit loss allowances of MNT 14,476,957 thousands at 31 December 2023 (31 December 2022: increase of MNT 12,694,866 thousands).
A 10% increase in LGD estimates would result in an increase in total expected credit loss allowances of MNT 33,465,881 thousands at 31 December 2023 (31 December 2022: increase of MNT 27,122,065 thousands).

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).

The Bank uses both qualitative and quantitative methods to assess effectiveness of the hedge. When applying a quantitative method to assess effectiveness of the hedging relationship, the Bank sets certain threshold requirements that are accepted within the banks' hedging strategy and risk management policy. 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. The bank internally set hedge effectiveness ratio to be within 60%-140% range and the bank constantly measures the hedge effectiveness.

For hedge accounting eligible long-term CCSwaps the bank conducted sensitivity analysis.

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

4.8. Hedge accounting (continued)

The bank conducted sensitivity analysis assuming the hedge effectiveness ratio to be within 80%-120% range. Taking into account the adjusted effectiveness ratio as of 31 December 2023, bank's gain in cash flow hedge reserve in OCI would have decreased by MNT 871,149 thousands and net losses from financial derivatives in profit and loss would have decreased by MNT 871,149 thousands.

4.9 Performance guarantees

The Bank analysed the issued performance guarantee contracts to assess whether they would meet the definition of insurance contracts in the scope of IFRS 17. The Bank has concluded that certain of its performance guarantee contracts expose the Bank solely to credit risk of the applicant because (i) all the contracts require the customers who apply for a guarantee to fully collateralize their obligations to indemnify the Bank as the issuer and (ii) there are no scenarios with commercial substance where the Bank would have to pay significant additional amounts to the holders of such guarantees. Accordingly, the Bank accounts for these contracts as loan commitments in accordance with IFRS 9. The gross amount of the performance guarantees issued and accounted for as loan commitments is MNT 45,542,538 thousands (31 December 2022: MNT 31,534,059 thousands) and the carrying value of the related liability recognised in the statement of financial position is MNT 45,907,294 thousands at 31 December 2023 (31 December 2022: MNT 41,819,295 thousands). The fee income recognised for these performance guarantees was MNT 6,090 thousands for the year ended 31 December 2023 (2022: MNT 7,431 thousands).

5. Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2023:

- 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).
- 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).
- 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).
- 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).
- Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023).

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 2024 or later, and which the Bank has not early adopted.

- 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).
- 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).
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023).

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 2023	31 December 2022
Cash on hand	201,506,285	212,128,736
Current account with BoM	218,195,709	1,250,828,153
BoM treasury bills	3,065,853,012	1,924,514,033
Due from banks - less than three months	1,439,240,653	981,378,356
Government bonds	34,061,072	6,848,102
Total carrying amount of cash and cash equivalents	**4,958,856,731**	**4,375,697,380**
Less: Credit loss allowance on cash and cash equivalents	(1,129,657)	(2,285,179)
Net cash and cash equivalents	**4,957,727,074**	**4,373,412,201**

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.

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.

As of 31 December 2023, the Bank had current accounts held with three Russian banks in amount of MNT 150,845 thousands (31 December 2022: MNT 192,649 thousands), 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 122,788 thousands (31 December 2022: MNT 151,711 thousands). Remaining cash and cash equivalent balances are classified in Stage 1.

Repurchase agreements are collateralized by BoM treasury bills in the amount of MNT 29,009,000 thousands as of 31 December 2023 (31 December 2022: MNT 175,582,000 thousands). 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 37:

Internal rating grade as at 31 December 2023:

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	-	-	59,174,044	34,061,072	93,235,116
A– to A+ rated	-	-	275,007,447	-	275,007,447
BBB– to BBB+ rated	-	-	1,897,000	-	1,897,000
BB– to BB+ rated	-	-	6,044,979	-	6,044,979
B– to B+ rated	218,195,709	3,065,853,012	1,063,309,391	-	4,347,358,112
C to CCC+ rated	-	-	150,845	-	150,845
Not rated	-	-	33,656,947	-	33,656,947
Total	**218,195,709**	**3,065,853,012**	**1,439,240,653**	**34,061,072**	**4,757,350,446**

7. Cash and cash equivalents (Continued)

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**

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

In thousands of MNT	**2023**	**2022**
Non-cash investing activities		
Acquisition of debt securities at FVOCI in exchange for securities	54,548,914	-
Proceeds from disposal of debt securities at FVOCI in the form of securities	(105,893,362)	-
Acquisition of debt securities at AC in exchange for securities	182,449,522	-
Proceeds from disposal of debt securities at AC in the form of securities	(128,293,346)	-
Acquisition of debt securities at AC in exchange for loans	41,467,200	228,675,600
Non-cash investing activities	**44,278,928**	**228,675,600**

8. Mandatory reserves with the Bank of Mongolia

In thousands of MNT	**31 December 2023**	**31 December 2022**
Mandatory reserves with the BoM	1,103,720,018	980,607,485
Less: Credit loss allowance on mandatory reserves with the BoM	(12,764,762)	(11,502,658)
Net mandatory reserves	**1,090,955,256**	**969,104,827**

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.

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 2023, the average reserves required by BoM for that period of 2 weeks were MNT 738,212,966 thousands (2022: MNT 589,764,840 thousands) for local currency and MNT 365,507,051 thousands (2022: MNT 390,842,645 thousands) 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 2023 and 31 December 2022. 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 37. For the purpose of ECL measurement, mandatory reserves with the Bank of Mongolia are included in Stage 1 as of 31 December 2023 and 31 December 2022.

8. Mandatory reserves with the Bank of Mongolia (Continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowance as at 31 December 2023 and 31 December 2022 is, as follows:

In thousands of MNT	2023 Stage 1	2022 Stage 1
Gross carrying amount as at 1 January	**980,607,485**	**818,615,281**
Net movement during the year	123,112,533	161,992,204
At 31 December	**1,103,720,018**	**980,607,485**
ECL allowance as at 1 January	**11,502,658**	**9,533,549**
Net charge for the year (Note 30)	1,262,104	1,969,109
At 31 December	**12,764,762**	**11,502,658**

9. 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.

Due from other banks represent local currency deposits maintained with a Multilateral Development Bank ("MDB"). The placements held as of 31 December 2023 are denominated in MNT with original maturity greater than 1 year and fixed annual interest rate of 14.50% and 15.50%. For the purpose of ECL measurement, credit risk grade of the MDB is excellent, therefore the Bank did not recognise any credit loss allowance for due from other banks.

The credit quality of due from banks based on the Bank's internal credit rating system is in the range of "AAA rated" as at 31 December 2023.

10. Financial investments

In thousands of MNT	31 December 2023	31 December 2022
Debt securities at AC	1,185,802,247	1,038,725,692
Debt securities at FVOCI	77,090,484	186,302,687
Debt securities measured at FVTPL	339,742,993	249,068,185
Total debt securities	**1,602,635,724**	**1,474,096,564**
Equity securities measured at FVOCI	4,970,548	4,267,181
Total equity securities	**4,970,548**	**4,267,181**
Total financial investments	**1,607,606,272**	**1,478,363,745**

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.

10. Financial investments (Continued)

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.

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 FVOCI or AC following the business model of the financial assets.

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

Corporate bonds, unquoted and quoted securities institutions are measured at AC.

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.

The increase in debt securities measured at FVTPL in 2023 relates to the investments in asset backed securities issued by SFC, while the decrease in Debt securities at FVOCI relates to the redemption of investment in Government bonds measured at FVOCI.

The table below discloses investments in debt securities at 31 December 2023 by measurement categories and classes:

In thousands of MNT	**Debt securities measured at FVTPL**	**Debt securities at FVOCI**	**Debt securities at AC**	**Total**
Government bonds	-	78,595,711	610,714,371	**689,310,082**
BoM treasury bills	-		455,485,593	**455,485,593**
Senior bonds	138,952,185	-	39,895,361	**178,847,546**
Junior bonds	200,790,808	-	-	**200,790,808**
Corporate bonds	-	-	92,647,779	**92,647,779**
Total gross carrying amount	**339,742,993**	**78,595,711**	**1,198,743,104**	**1,617,081,808**
Less: credit loss allowance	-	(1,505,227)	(12,940,857)	(14,446,084)
Carrying value (fair value)	**339,742,993**	**77,090,484**	**1,185,802,247**	**1,602,635,724**

10. Financial investments (Continued)

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 FVOCI	Debt securities at AC	Total
Government bonds	-	188,025,198	640,457,405	**828,482,603**
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	-	-	28,340,059	**28,340,059**
Total gross carrying amount	**249,068,185**	**188,025,198**	**1,050,724,235**	**1,487,817,618**
Less: credit loss allowance	-	(1,722,511)	(11,998,543)	(13,721,054)
Carrying value (fair value)	**249,068,185**	**186,302,687**	**1,038,725,692**	**1,474,096,564**

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

In thousands of MNT	Debt securities measured at FVOCI	Debt securities at AC
Gross carrying amount at 1 January 2023	**188,025,198**	**1,050,724,235**
Purchase/Addition	130,585,555	968,972,346
Matured/repaid financial investments	(252,440,405)	(810,569,733)
Changes in accrued interest	3,510,030	(6,289,506)
Foreign exchange difference	(295,060)	(4,094,238)
Increase in fair value	9,210,393	–
At 31 December 2023	**78,595,711**	**1,198,743,104**
ECL allowance at 1 January 2023	**1,722,511**	**11,998,543**
Purchase of new investments	1,027,513	12,086,821
Changes to input used for ECL calculation	102,257	(5,158,928)
Recoveries/matured/repaid	(1,347,054)	(5,985,579)
Net (reversal)/charge for the period (Note 30)	**(217,284)**	**942,314**
At 31 December 2023	**1,505,227**	**12,940,857**
At 31 December 2023	**77,090,484**	**1,185,802,247**

10. Financial investments (Continued)

In thousands of MNT	Debt securities measured at FVOCI	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
Matured/repaid financial investments	(93,256,063)	(281,893,933)
Changes in accrued interest	(6,058,105)	(42,615,727)
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 30)	**(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**

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI for which an ECL allowance is recognised, based on credit risk grades. All debt instruments measured at FVOCI are included in Stage 1. Refer to Note 37 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 securities at FVOCI.

In thousands of MNT	31 December 2023			31 December 2022		
	Gross carrying amount	**Credit loss allowance**	**Carrying value (fair value)**	**Gross carrying amount**	**Credit loss allowance**	**Carrying value (fair value)**
AA- to AA+						
Government bonds	-	-	-	42,964,416	-	**42,964,416**
B- to B+						
Government bonds	78,595,711	(1,505,227)	**77,090,484**	145,060,782	(1,722,511)	**143,338,271**
Total debt securities measured at FVOCI	**78,595,711**	**(1,505,227)**	**77,090,484**	**188,025,198**	**(1,722,511)**	**186,302,687**

10. 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 37 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 2023			31 December 2022		
	Gross carrying amount	**Credit loss allowance**	**Carrying value**	**Gross carrying amount**	**Credit loss allowance**	**Carrying value**
B- to B+						
Government bonds	610,714,371	(8,209,122)	**602,505,249**	640,457,405	(8,177,104)	**632,280,301**
BoM treasury bills	455,485,593	(1,394,716)	**454,090,877**	308,425,600	(1,039,757)	**307,385,843**
Corporate bonds	85,540,105	(1,802,157)	**83,737,948**	28,340,059	(391,799)	**27,948,260**
Not rated						
Senior bonds	39,895,361	(1,302,838)	**38,592,523**	73,501,171	(2,389,883)	**71,111,288**
Corporate bonds	7,107,674	(232,024)	**6,875,650**	-	-	**-**
Total debt securities measured at AC	**1,198,743,104**	**(12,940,857)**	**1,185,802,247**	**1,050,724,235**	**(11,998,543)**	**1,038,725,692**

Investments in equity securities.

Equity securities at fair value represent equity investment in Mongolian stock exchange ("MSE") and MIK Holding JSC ("MIK"), listed on the Mongolian Stock Exchange.

11. Investments in associates

In thousands of MNT	**31 December 2023**	**31 December 2022**
Credit Information Bureau (CIB)	243,638	243,638
Mongolian Banking Association Property Management (MBAPM)	39,951	39,951
Carrying amount at 31 December	**283,589**	**283,589**

As of 31 December 2023, the Bank's ownerships in MBAPM and CIB were 10.00% and 18.88%, respectively. (2022: 10.00% 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.

12. 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
Long-term derivatives	**1,832,159,489**	**1,787,006,314**	**47,260,829**	**4,977,339**
Hedging instruments eligible for hedge accounting	1,093,806,142	1,073,585,764	19,710,937	2,291,097
Hedging instruments not eligible for hedge accounting	738,353,347	713,420,550	27,549,892	2,686,242
Short-term derivatives	**57,867,582**	**58,678,074**	**-**	**721,213**
Total FV of derivatives as at 31 December 2023	**1,890,027,071**	**1,845,684,388**	**47,260,829**	**5,698,552**

	Notional amount		Fair value	
In thousands of MNT	Receivable	Payable	Fair value of assets	Fair value of liabilities
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
Short-term derivatives	**48,700,955**	**48,673,261**	**-**	**380,420**
Total FV of derivatives as at 31 December 2022	**1,329,438,860**	**1,208,449,966**	**128,660,248**	**4,896,897**

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 other comprehensive income and 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.

12. Derivative financial investments (Continued)

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 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 resulting from 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.

In thousands of MNT	**Assets 2023**	**Liabilities 2023**	**Assets 2022**	**Liabilities 2022**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
–Receivable on settlement (+)	1,858,269,668	17,421,548	1,254,515,848	48,037,585
–Payable on settlement (–)	(1,811,008,839)	(23,120,100)	(1,125,855,600)	(52,934,482)
Net fair value of foreign exchange forwards and swaps	**47,260,829**	**(5,698,552)**	**128,660,248**	**(4,896,897)**

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 29 and Note 37 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 320,699 thousands as of 31 December 2023 (31 December 2022: USD 228,413 thousands) with annual floating interest rates ranging from 6m SOFR plus margin of 3.4% to 4.3% p.a. (31 December 2022: 6m Libor or SOFR plus margin of 3.0% to 4.2% p.a.) or fixed annual interest rates ranging from 4.1% to 4.5% p.a. (31 December 2022: 3.5% to 4.5% p.a.).

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 2023	Cross currency interest rate swap	FX risk	(22,890,576)	18,255,772	(4,634,804)
31 December 2022	Cross currency interest rate swap	FX risk	97,232,286	(81,958,751)	15,273,535

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	-	4,361,476	13,037,829	58,910,588	-
Average MNT rate	-	14.0%	14.0%	14.0%	-
MNT payables	60,671,562	52,107,653	159,938,208	1,418,296,704	19,933,800
Average MNT rate	14.0%	14.0%	13.9%	14.0%	14.0%
USD receivables	62,968,572	59,693,571	167,544,713	1,444,813,169	20,829,571
Average USD rate	9.9%	9.5%	10.0%	9.9%	9.6%
USD payables	-	4,774,966	14,154,364	57,129,057	-
Average USD rate	-	9.3%	9.6%	10.4%	-

13. Loans and advances to customers

In thousands of MNT	31 December 2023	31 December 2022
Gross carrying amount of loans and advances to customers at AC	9,486,001,509	7,599,161,904
Less credit loss allowance	(652,449,894)	(566,704,290)
Total carrying amount of loans and advances to customers at AC	**8,833,551,615**	**7,032,457,614**
Loans and advances at FVTPL	183,423,240	378,606,395
Total loans and advances to customers	**9,016,974,855**	**7,411,064,009**

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 37 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.

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

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

The effective interest rate discounts cash flows of variable interest instruments to the next interest 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.

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.

13. Loans and Advances to Customers (Continued)

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at 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 37 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 37. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 37 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.

During 2023, a loss on initial recognition of loans at rates below market in the amount of MNT 3,785,133 thousands (2022: MNT 3,656,941 thousands) has been recorded in profit or loss for the year.

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. 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.

Gross carrying amount and credit loss allowance amount for loans and advances to customers, including at AC by classes at 31 December 2023 and 31 December 2022 are disclosed in the table below:

	31 December 2023			31 December 2022		
In thousands of MNT	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Business loans	4,616,191,834	(463,656,001)	4,152,535,833	4,004,941,079	(423,291,321)	3,581,649,758
Consumer loans	4,207,102,149	(149,514,440)	4,057,587,709	2,888,108,397	(130,476,550)	2,757,631,847
Agricultural loans	662,707,526	(39,279,453)	623,428,073	706,112,428	(12,936,419)	693,176,009
Total	**9,486,001,509**	**(652,449,894)**	**8,833,551,615**	**7,599,161,904**	**(566,704,290)**	**7,032,457,614**

13. 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 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**
New originated or purchased	63,589,526	5,949,737	-	69,539,263	7,426,012,503	288,369,251	-	7,714,381,754
Derecognized during the period	(51,573,129)	(29,214,983)	(62,779,711)	(143,567,823)	(6,218,849,263)	(779,952,901)	(103,344,750)	(7,102,146,914)
- Transfers to Stage 1	1,290,658	(3,469,860)	-	(2,179,202)	68,419,941	(68,419,941)	-	-
- Transfers to Stage 2	(25,965,133)	41,337,051	(40,115)	15,331,803	(571,764,642)	571,818,343	(53,701)	-
- Transfers to Stage 3	-	(46,671,203)	105,638,216	58,967,013	-	(181,580,505)	181,580,505	-
Changes in accrued interest	(226,774)	(2,449,240)	148,662	(2,527,352)	6,586,437	(6,402,348)	327,737	511,826
Changes to models assumptions	947,296	33,382,060	10,547,751	44,877,107	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(11,937,556)**	**(1,136,438)**	**53,514,803**	**40,440,809**	**710,404,976**	**(176,168,101)**	**78,509,791**	**612,746,666**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(14,117)	(14,117)	-	-	(14,117)	(14,117)
Foreign exchange translation and other movements	(16,138)	618	(46,492)	(62,012)	(1,420,095)	3,089	(64,788)	(1,481,794)
At 31 December 2023	**46,683,209**	**119,562,466**	**297,410,326**	**463,656,001**	**3,298,019,708**	**939,882,914**	**378,289,212**	**4,616,191,834**

13. 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 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**

13. 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 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**
New originated or purchased	34,658,779	4,963,289	-	39,622,068	6,428,009,620	69,603,918	-	6,497,613,538
Derecognized during the period	(26,783,724)	(5,316,167)	(15,496,845)	(47,596,736)	(5,025,114,367)	(149,862,481)	(25,386,327)	(5,200,363,175)
- Transfers to Stage 1	20,876	(782,880)	-	(762,004)	5,469,644	(5,469,644)	-	-
- Transfers to Stage 2	(748,090)	4,680,769	(3,167,132)	765,547	(54,693,056)	59,191,991	(4,498,935)	-
- Transfers to Stage 3	-	(3,167,128)	16,166,543	12,999,415	-	(39,156,818)	39,156,818	-
Changes in accrued interest	-	75,290	11,914	87,204	22,016,833	(287,587)	18,101	21,747,347
Changes to models assumptions	2,982,193	7,166,758	3,773,752	13,922,703	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**10,130,034**	**7,619,931**	**1,288,232**	**19,038,197**	**1,375,688,674**	**(65,980,621)**	**9,289,657**	**1,318,997,710**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange translation and other movements	(26)	-	(281)	(307)	(3,423)	(41)	(494)	(3,958)
At 31 December 2023	**26,418,039**	**27,270,842**	**95,825,559**	**149,514,440**	**3,847,359,872**	**234,274,953**	**125,467,324**	**4,207,102,149**

13. 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**
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**

13. 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 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**
New originated or purchased	10,158,972	113,754	-	10,272,726	668,470,314	1,024,228	-	669,494,542
Derecognized during the period	(11,027,934)	(8,685,374)	(1,050,280)	(20,763,588)	(653,872,141)	(56,399,477)	(3,525,209)	(713,796,827)
- Transfers to Stage 1	413	(16,751)	-	(16,338)	527,382	(527,382)	-	-
- Transfers to Stage 2	(3,270,340)	37,091,554	(70,031)	33,751,183	(210,549,514)	210,637,708	(88,194)	-
- Transfers to Stage 3	-	(404,319)	2,934,330	2,530,011	-	(6,810,191)	6,810,191	-
Changes in accrued interest	-	694	1,943	2,637	(5,395,765)	6,289,596	3,552	897,383
Changes to models assumptions	115,573	250,283	200,547	566,403	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**(4,023,316)**	**28,349,841**	**2,016,509**	**26,343,034**	**(200,819,724)**	**154,214,482**	**3,200,340**	**(43,404,902)**
At 31 December 2023	**3,023,251**	**30,498,301**	**5,757,901**	**39,279,453**	**463,469,872**	**191,438,168**	**7,799,486**	**662,707,526**

13. 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**
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)
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**

13. Loans and Advances to Customers (Continued)

Credit quality of gross carrying amounts as at 31 December 2023 and 31 December 2022:

		31 December 2023				31 December 2022			
	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%	75,478,066	111,415,596	7,324,035	194,217,697	96,648,415	98,463,749	6,877,407	201,989,571
	from 0,15% to <0,25%	-	52,937,726	3,221,233	56,158,959	-	45,064,313	-	45,064,313
	from 0,25% to <0,50%	63,979,173	-	1,580,183	65,559,356	63,868,347	55,812,919	5,320,841	125,002,107
	from 0,50% to <0,75%	37,084,658	65,875,567	5,737,642	108,697,867	-	69,812,163	-	69,812,163
	from 0,75% to <2,50%	368,333,322	665,920,336	91,992,601	1,126,246,259	248,768,640	2,196,953,755	88,886,223	2,534,608,618
	from 2,50% to <10,0%	2,752,181,611	2,944,744,968	353,373,610	6,050,300,189	2,175,768,853	25,062	562,798,858	2,738,592,773
	from 10,0% to <45,0%	284,202	234,407	19,753	538,362	33,261	1,187,563	155,982	1,376,806
	from 45,0% to <64,0%	678,676	6,231,272	220,815	7,130,763	3,947,311	4,355,097	250,285	8,552,693
	Total Stage 1	**3,298,019,708**	**3,847,359,872**	**463,469,872**	**7,608,849,452**	**2,589,034,827**	**2,471,674,621**	**664,289,596**	**5,724,999,044**
Stage 2	from 0,00% to <0,15%	15,568,104	1,377,953	3,899,163	20,845,220	14,848,516	702,225	732,057	16,282,798
	from 0,15% to <0,25%	-	93,103	1,761,62	1,854,724	-	63,146	-	63,146
	from 0,25% to <0,50%	11,346,426	-	49,715	11,396,141	8,577,036	154,701	62,121	8,793,858
	from 0,50% to <0,75%	-	123,587	2,547,414	2,671,001	-	387,471	-	387,471
	from 0,75% to <2,50%	42,535,966	2,638,063	24,571,496	69,745,525	29,747,144	3,040,778	821,953	33,609,875
	from 2,50% to <10,0%	238,294,598	18,389,828	146,003,602	402,688,028	474,861,591	50,782,483	10,070,095	535,714,169
	from 10,0% to <45,0%	520,442,146	135,156,853	9,450,519	665,049,518	486,684,892	182,978,985	22,615,318	692,279,195
	above 45,0%	111,695,674	76,495,566	3,154,638	191,345,878	101,328,747	62,145,826	2,922,142	166,396,715
	Total Stage 2	**939,882,914**	**234,274,953**	**191,438,168**	**1,365,596,035**	**1,116,047,926**	**300,255,615**	**37,223,686**	**1,453,527,227**

13. Loans and Advances to Customers (Continued)

		31 December 2023				31 December 2022			
	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	168,275,697	42,149,751	5,041,859	215,467,307	107,249,861	34,204,168	3,013,120	144,467,149
	from 13 to 24 months	75,375,202	19,274,186	1,317,104	95,966,492	46,286,911	17,220,672	210,221	63,717,804
	from 25 to 36 months	39,577,248	12,060,394	157,967	51,795,609	17,619,868	18,321,165	1,088,742	37,029,775
	from 37 to 48 months	13,878,624	12,876,022	1,043,861	27,798,507	9,425,754	27,650,351	44,870	37,120,975
	from 49 to 60 months	7,809,504	23,334,162	33,781	31,177,447	2,320,701	9,579,778	38,641	11,939,120
	from 61 to 84 months	42,030,163	10,666,945	15,023	52,712,131	66,470,642	5,600,293	69,601	72,140,536
	above 84 months	31,342,774	5,105,864	189,891	36,638,529	50,484,589	3,601,734	133,951	54,220,274
	Total Stage 3	**378,289,212**	**125,467,324**	**7,799,486**	**511,556,022**	**299,858,326**	**116,178,161**	**4,599,146**	**420,635,633**

13. Loans and advances to customers (Continued)

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

	31 December 2023		31 December 2022	
SECTOR	**Amount**	**%**	**Amount**	**%**
Individuals	4,390,525,389	45%	3,159,939,182	40%
Trade and commerce	2,062,247,359	21%	1,673,187,356	21%
Construction	667,259,816	7%	655,176,274	8%
Processing	507,806,356	5%	440,099,237	5%
Agriculture	507,460,523	5%	407,036,155	5%
Small private enterprises	451,703,458	5%	738,707,336	9%
Transportation	253,918,805	3%	244,174,665	3%
Real estate	195,078,222	2%	170,945,393	2%
Mining	145,735,033	2%	133,561,039	2%
Health and social organizations	58,286,732	1%	50,939,719	1%
Other	429,403,056	4%	304,001,943	4%
TOTAL	**9,669,424,749**	**100%**	**7,977,768,299**	**100%**

Description of collateral held for loans to customers carried at amortised cost is as follows at 31 December 2023:

In thousands of MNT	**Business Loans**	**Consumer Loans**	**Agricultural Loans**	**Total**
Loans secured by credit enhancements:				
- credit enhancement	-	2,669,681,987	-	2,669,681,987
Loans collateralized by:				
- real estate properties	3,706,926,611	984,989,940	63,297,680	4,755,214,231
- other	213,315,151	67,489,765	578,446,303	859,251,219
- cash	139,196	361,072,539	1,498	361,213,233
- vehicles	273,737,677	53,183,789	12,692,987	339,614,453
- goods in turnover	219,492,427	742,436	17,244	220,252,107
- equipment	96,634,363	1,590,852	5,425,721	103,650,936
- licenses	6,059,929	-	-	6,059,929
Total	**4,516,305,354**	**4,138,751,308**	**659,881,433**	**9,314,938,095**
Unsecured loans	99,886,480	68,350,841	2,826,093	171,063,414
Total gross carrying value loans and advances to customers	**4,616,191,834**	**4,207,102,149**	**662,707,526**	**9,486,001,509**

Credit enhancements consist of the future income pledged by consumer loans including salary and pension. 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.

13. Loans and advances to customers (Continued)

Description of collateral held for loans to customers carried at FVTPL is as follows at 31 December 2023:

In thousands of MNT	Business Loans	Consumer Loans	Agricultural Loans	Total
Loans collateralized by:				
- real estate properties	-	182,464,112	-	182,464,112
Total	-	**182,464,112**	-	**182,464,112**
Unsecured loans	-	959,128	-	959,128
Total carrying value loans and advances to customers	-	**183,423,240**	-	**183,423,240**

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	-	1,716,073,479	-	1,716,073,479
Loans collateralized by:				
- real estate properties	3,181,167,744	690,189,975	102,226,691	3,973,584,410
- vehicles	290,669,184	67,530,827	17,752,076	375,952,087
- cash	2,008,204	289,317,468	70,527	291,396,199
- goods in turnover	182,867,275	769,978	37,113	183,674,366
- equipment	51,897,857	1,384,751	7,582,280	60,864,888
- licenses	16,993,309	3,817	-	16,997,126
- other	197,700,277	23,584,585	576,232,878	797,517,740
Total	**3,923,303,850**	**2,788,854,880**	**703,901,565**	**7,416,060,295**
Unsecured loans	81,637,229	99,253,517	2,210,863	183,101,609
Total gross carrying value loans and advances to customers	**4,004,941,079**	**2,888,108,397**	**706,112,428**	**7,599,161,904**

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**

13. 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 2023 and 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 2023				
Business loans	346,260,495	1,661,422,915	32,028,717	6,887,278
Consumer loans	92,614,468	313,759,823	32,852,856	8,270,919
Agricultural loans	7,629,549	221,243,492	169,937	127,864
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

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 282,931,600 thousands (31 December 2022: MNT 173,674,600 thousands) and recognised Senior and Junior RMBS as financial assets amounting to MNT 254,638,300 thousands and MNT 28,293,300 thousands respectively (31 December 2022: MNT 156,306,800 thousands and MNT 17,367,800 thousands 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 51,834,000 thousands (31 December 2022: MNT 170,059,600 thousands) and recognised Senior and Junior SFC bonds as financial assets amounting to MNT 41,467,200 thousands and MNT 10,366,800 thousands respectively (31 December 2022: MNT 153,053,600 thousands and MNT 17,006,000 thousands respectively).

Loans and advances to customers at FVTPL

As at 31 December 2023, the Bank holds mortgage portfolio of loans and advances to customers in amount of MNT 183,423,240 thousands (31 December 2022: MNT 271,830,785 thousands) and no SME loan portfolio (31 December 2022: MNT 106,775,610 thousands) classified as FVTPL.

14. Other assets

In thousands of MNT	31 December 2023	31 December 2022
Other financial assets at AC		
Receivable from companies*	29,354,246	28,290,592
Receivable from individuals	2,070,469	2,308,325
Receivable on settlement service	971,101	720,036
Other financial assets	2,046,074	161,178
Less: Credit loss allowance	(28,279,462)	(28,777,085)
Total other financial assets at AC	**6,162,428**	**2,703,046**
Other non-financial assets		
Deferred employee benefits**	48,702,730	42,599,476
Prepaid expenses	24,683,139	13,154,824
Prepayments for non-current assets	17,767,756	10,310,228
Other prepayments	5,236,294	3,098,028
Office supplies and materials	5,150,905	4,495,841
Repossessed collaterals	4,612,381	383,822
Total non-financial assets	**106,153,205**	**74,042,219**
Less: provision for repossessed collaterals	(4,612,381)	(383,822)
Total other non-financial assets	**101,540,824**	**73,658,397**
Total other assets	**107,703,252**	**76,361,443**

*Receivable from companies includes a counter-guarantee receivable from Industrial and Commercial Bank of China (ICBC) in relation to a guarantee issued to Ministry of Road and Transport Development of Mongolia amounting to MNT 26,080,005 thousands (31 December 2022: 26,339,300 thousands). 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 2023, and 31 December 2022, the above mentioned receivable from ICBC is classified in Stage 3, and the remaining other financial asset balances are classified 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.

14. Other assets (Continued)

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

In thousands of MNT	**31 December 2023**	**31 December 2022**
Impairment allowance on other receivables		
At 1 January	**28,777,085**	**23,562,969**
Charge for the year	217,836	878,205
Reversal	(438,156)	(4,857)
Net (reversal)/charge for the year (Note 30)	**(220,320)**	**873,348**
Write off	-	(405,684)
Foreign exchange difference	(277,303)	4,746,452
At 31 December	**28,279,462**	**28,777,085**
Impairment allowance on foreclosed properties		
At 1 January	**383,822**	**462,634**
Net charge/(reversal) for the year (Note 30)	4,228,559	(78,812)
At 31 December	**4,612,381**	**383,822**

15. 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 2023					
At cost/valuation					
At 1 January 2023	**301,845,593**	**293,170,395**	**69,869,713**	**7,237,714**	**672,123,415**
Additions	-	35,449,735	5,014,375	13,274,904	53,739,014
Transfer	10,768,995	-	-	(10,768,995)	-
Disposals	(60,275)	(575,437)	(2,531,929)	-	(3,167,641)
Write-offs	(674,231)	(23,721,691)	(1,069,853)	-	(25,465,775)
At 31 December 2023	**311,880,082**	**304,323,002**	**71,282,306**	**9,743,623**	**697,229,013**
Accumulated depreciation					
At 1 January 2023	**12,034,815**	**172,869,953**	**31,724,901**	**-**	**216,629,669**
Charge for the year (Note 31)	6,419,136	41,198,335	8,059,032	-	55,676,503
Disposals	(4,000)	(562,601)	(2,402,616)	-	(2,969,217)
Write-offs	(74,333)	(23,651,260)	(751,522)	-	(24,477,115)
At 31 December 2023	**18,375,618**	**189,854,427**	**36,629,795**	**-**	**244,859,840**
Net carrying amount	**293,504,464**	**114,468,575**	**34,652,511**	**9,743,623**	**452,369,173**

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 31)	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**

15. Property plant equipment (Continued)

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.

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

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	1-5 years
Advertisement and signs	2

Land and buildings are carried at fair value. 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. The last valuation by independent appraisers were performed in 2020. Had these buildings been recognised under the cost model as at 31 December 2023, the carrying amount of land and buildings would have been MNT 202,653,842 thousands (2022: MNT 206,916,085 thousands). As at 31 December 2023, the Bank had contractual commitments to acquire property and equipment of MNT 1,025,293 thousands (2022: MNT 2,585,144 thousands).

16. Intangible assets

	31 December 2023		31 December 2022		
In thousands of MNT	Computer software	Total	Computer software	Assets under development	Total
At cost					
At 1 January	**93,112,463**	**93,112,463**	**100,980,472**	**11,033,072**	**112,013,544**
Additions	15,536,085	15,536,085	6,535,092	9,979,359	16,514,451
Transfer	-	-	21,012,431	(21,012,431)	-
Write-offs	(20,000)	(20,000)	(35,415,532)	-	(35,415,532)
At 31 December	**108,628,548**	**108,628,548**	**93,112,463**	**–**	**93,112,463**
Amortisation					
At 1 January	**46,826,439**	**46,826,439**	**57,248,741**	**-**	**57,248,741**
Charge for the year (Note 31)	18,292,815	18,292,815	20,643,564	-	20,643,564
Write-offs	(20,000)	(20,000)	(31,065,866)	-	(31,065,866)
At 31 December	**65,099,254**	**65,099,254**	**46,826,439**	**-**	**46,826,439**
Net carrying amount	**43,529,294**	**43,529,294**	**46,286,024**	**-**	**46,286,024**

During 2022, Intangible assets comprising software and licenses with the cost of MNT 35,415,532 thousands and accumulated amortisation of MNT 31,065,865 thousands have been written-off during the year as the Bank had stopped using these assets.

17. Right-of-use assets and lease liability

In thousands of MNT	Right-of-use assets	Lease liabilities
As at 1 January 2023	**10,202,947**	**11,231,249**
Additions	10,350,729	10,215,762
Depreciation expense (Note 31)	(8,438,579)	–
Interest expense (Note 27)	–	1,966,273
Payments	–	(10,376,943)
As at 31 December 2023	**12,115,097**	**13,036,341**
As at 1 January 2022	**10,086,653**	**11,085,695**
Additions	7,740,030	7,778,978
Depreciation expense (Note 31)	(7,623,736)	–
Interest expense (Note 27)	–	1,798,399
Payments	–	(9,431,823)
As at 31 December 2022	**10,202,947**	**11,231,249**

The maturity analysis of lease liabilities are disclosed in Note 41.

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

17. Right-of-use assets and lease liability (Continued)

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

In thousands of MNT	2023	2022
Interest expenses on lease liabilities	1,966,273	1,798,399
Depreciation charge of right-of-use assets	8,438,579	7,623,736
Expenses relating to short-term leases	1,687,294	1,543,698
Variable lease payments that do not depend on index or rates (Utility expense of Operating expenses)	1,375,518	1,081,451
Total	**13,467,664**	**12,047,284**

18. 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 2023	31 December 2022
Office and commercial spaces	389,140	3,480,567
Total	**389,140**	**3,480,567**

During 2023, MNT 3,480,567 thousands of asset was transferred back to repossessed collaterals from non-current assets held for sale, as the sales of the asset was not successful in the past 12 months and the Bank is expecting the sales would not happen in the foreseeable future. MNT 389,140 thousands of assets were transferred from property and equipment to non-current asset held for sale in 2023.

19. Due to other banks

In thousands of MNT	31 December 2023	31 December 2022
Current accounts from banks and financial institutions	38,985,374	15,884,992
Time deposits from banks and financial institutions	189,137,834	175,195,290
Total	**228,123,208**	**191,080,282**

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 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.

At 31 December 2023 and 2022, due to banks included time deposit with foreign banks, at interest rates ranging from 0.25% p.a. for deposits denominated in USD and 12.00% to 13.00% p.a. for deposits denominated in MNT (2022: 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) with original maturities from 5 to 7 days (2022: from 3 to 28 days).

20. Repurchase agreements

Included in the balance as at 31 December 2023 was long-term repurchase agreement with the BoM amount of MNT 60,182,082 thousands (2022: MNT 307,037,286 thousands) bearing interest rate ranging from 10.5% to 14.0% p.a. (2022: 6% to 10.5% p.a.) with original maturities from 365 to 730 days (2022: 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 (Note 13) and shall sell these loans to wholly owned special purpose companies of Securities Financing Corporation LLC in return for asset backed bonds.

As at 31 December 2023 there were no short term repurchase agreement with the BoM (31 December 2022: MNT 60,230,043 thousands and sold an equal amount of unquoted BoM bills).

Long-term repurchase agreements are fully collateralized by the Bank of Mongolia treasury bills and Senior SFC bonds disclosed in Note 7 and Note 10.

21. Customer accounts

In thousands of MNT	**31 December 2023**	**31 December 2022**
Government deposits		
– Current accounts	782,924,965	1,121,728,152
– Time deposits	61,428,516	50,728,680
Private sector deposits		
– Current accounts	1,952,557,881	1,781,408,671
– Time deposits	911,714,581	375,005,500
– Deposits as collateral	25,801,830	26,265,979
Individual deposits		
– Current accounts	1,916,581,982	1,798,621,925
– Demand deposits	1,690,588,385	1,155,771,758
– Time deposits	5,036,673,855	4,621,257,691
Total	**12,378,271,995**	**10,930,788,356**

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

22. 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.

International Green Bond

On 16 March 2023, the Bank issued a Green Bond in an amount of USD 60 million with 5 year term via private placement. International Finance Corporation (IFC), Dutch Entrepreneurial Development Bank (FMO) and Microvest Capital Management (MCM) are the current bond holders. The bond proceeds are for funding eligible green loans and projects that support renewable energy, energy efficiency, green buildings, pollution prevention and control, water management and water treatment, sustainable agriculture and livestock, and clean transport as defined in the Bank's Green Bond Framework. The bond is to be settled semi-annually starting April 2025 and shall mature in April 2028.

Domestic "Green bond program"

On 13 June 2023, the Bank registered its first domestic "Green bond program" with the Financial Regulatory Commission (FRC) and obtained its approval to issue a green bond at the Mongolian Stock Exchange. The total size of the bond program is up to USD 30 million, comprising of a MNT denominated public offering (MNT Green Bond) of up to MNT 17,000,000 thousands (equivalent to USD 5 million) and a USD denominated offering (USD Green Bond) of up to USD 25 million for international strategic investors.

On 15 December 2023, the Bank successfully issued MNT Green bond of MNT 17,000,000 thousands as a first tranche under the Green bond program. The MNT green bond has a 3-year tenor and carries a fixed coupon interest rate of 16% per annum, payable semi-annually. The proceeds from bond issuance are exclusively for financing or refinancing projects and activities (the Green eligible loans) that seek to achieve positive environmental impacts, and a notable contribution to climate change mitigation.

23. Other borrowed funds

In thousands of MNT	31 December 2023	31 December 2022
Borrowed funds from foreign financial institutions		
International Finance Corporation and syndication arranged by IFC	459,255,327	-
The Netherlands Development Finance Company (FMO) and syndication arranged by FMO	377,032,840	522,600,605
European Bank for Reconstruction and Development (EBRD)	269,664,034	120,323,490
Incofin	129,366,035	61,963,469
Symbiotics SA	117,675,399	83,041,504
BlueOrchard	93,292,234	151,534,935
ResponsAbility AG	89,367,530	89,436,918
Oesterreichische Entwicklungsbank (OeEB)	58,566,151	84,169,703
Promissory notes	55,273,188	62,367,927
Developing World Markets	41,339,381	41,198,363
HS Holdings Co.Ltd	35,311,033	60,173,259
GLS Alternative investments	16,992,626	33,612,020
Bank im Bistum Essen EG	14,281,055	19,207,271
Total borrowed funds from foreign financial Institutions	**1,757,416,833**	**1,329,629,464**
Borrowed funds from government organizations		
Bank of Mongolia	207,395,386	344,764,370
Ministry of Finance/Japan Bank for International Cooperation	32,505,970	32,954,063
Ministry of Finance - Asian Development Bank	31,399,511	29,545,540
Ministry of Food, Agriculture and Light Industry	4,854,719	9,808,986
Ministry of Finance - other	3,369,715	5,714,715
Ministry of Labour and Social Welfare - Small Loan supporting the Labour market	3,387,153	5,048,658
Government projects	1,072,449	1,101,127
Education Loan Fund under Ministry of Education, Culture, Science and Sports	87,582	214,947
Other government organizations	168,337	168,337
Other project	692,962	708,323
Total borrowed funds from government organizations	**284,933,784**	**430,029,066**
Trade finances	79,371,253	17,274,187
Total borrowed funds	**2,121,721,870**	**1,776,932,717**

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.

Borrowed funds from foreign financial institutions

1. (IFC) International Finance Corporation

The Bank obtained USD 130 million from IFC (International Finance Corporation) on 19 January 2023, in accordance with the Syndicated Senior Loan Agreement signed on 23 December 2022. The purpose of the loan is to support micro, small and medium enterprises, of which at least fifty percent shall be used exclusively to support Women-owned small and medium enterprises. The loan has floating interest rate, 2-years grace period and equal amortizing repayments thereafter and shall mature on 19 January 2028.

23. Borrowed funds (Continued)

Borrowed funds from foreign financial institutions (Continued)

2. Incofin Investment Management

On 13 April 2023, the Bank entered into USD 5 million loan agreement with agRIF Coöperatief U.A. fund, a fund managed by Incofin Investment Management. The purpose of the fund is to support micro, small and medium enterprises in Mongolia. The loan has a bullet repayment and shall mature on 21 April 2025. The Bank obtained the funds on 20 April 2023.
On 28 June 2023, the Bank entered into a total of USD 15 million loan agreements with two funds managed by Incofin Investment Management. The purpose of the loan is to support micro, small, and medium enterprises in Mongolia. The loan has a tenor of 3 years, with two equal repayments in 24th and 36th months. The Bank received the funds on 30 June 2023.

3. Symbiotics

On 21 April 2023, the Bank entered into USD 10 million loan agreement with MSME Bonds S.A. fund, managed by Symbiotics. The fund was raised through the gender-focused bond issued via Symbiotics sponsored bond issuance platform (MSME Bonds S.A.) under its Sustainable Bond Framework. The bond is listed on the Securities Official List of the Luxembourg Stock Exchange and displayed with the gender-focused bond flag on Luxembourg Green Exchange. The purpose of the loan is to support women owned small and medium enterprises in Mongolia. The loan has a bullet repayment and shall mature on 26 October 2024. The Bank obtained the funds on 26 April 2023.

4. European Bank for Reconstruction and Development (EBRD)

On 17 May 2023, the Bank entered into USD 20 million loan agreement with EBRD. The purpose of the loan is to support women-owned and women-led micro, small, and medium business clients and women entrepreneurs in Mongolia. Up to USD 5 million of the total facility is earmarked for supporting businesses that are implementing digitalization projects. The loan has a tenor of 3 years, including 12-month grace period followed by semi-annual equal payments thereafter. The first tranche of USD 10 million was disbursed in July 2023.
On 30 May 2023, the Bank obtained USD 5 million from EBRD in accordance with the Loan Agreement signed on 19 October 2022 as the second tranche. The purpose of the loan is to support women-owned and women-led micro, small, and medium business clients and women entrepreneurs in Mongolia. The loan has a tenor of 3 years including one-year grace period and equal amortizing repayments thereafter.
On 5 October 2023, the Bank obtained USD 30 million from EBRD in accordance with the Loan Agreement signed on 19 October 2022 as the second tranche in October, 2023. The purpose of the loan is to finance eligible green loan projects in Mongolia. The loan has a tenor of 5 years and shall mature on 30 November 2028.

5. ResponsAbility Investments AG

On 27 October 2023, the Bank entered into a USD 3.5 million loan agreement with “MultiConcept Fund Management S.A”, a fund managed by responsAbility Investments AG. The loan proceeds will be used towards the Bank’s lending activities to our clients. The loan has a tenor of 3 years, with two equal repayments in 18th and 36th months. The Bank obtained the funds on 30 October 2023.
On 27 October 2023, the Bank entered into a USD 4.25 million loan agreement with “Financing for healthier lives DAC” and the funding is provided through a social bond issued by responsAbility Investments AG. The purpose of the loan is to support MSMEs, and/or low-income households, in rural or lower-income urban areas and/or projects relating to access to safe, reliable and sustainable water supply, and/or improved sanitation, and/or transport and treatment of waste in sewage facilities. The loan has a tenor of 3 years and a bullet repayment. The Bank obtained the funds on 30 October 2023.

6. Repayments

During the year, the Bank made principal repayments of USD 93.2 million in senior loans and promissory notes in accordance with the repayment schedules as per respective loan agreements and promissory note agreements.

Principal amount and interest payment of USD 3.9 million to be repaid to FMO as Agent under the Syndicated Term Facility Agreements has been postponed which was initiated by the Lender.

23. Borrowed funds (Continued)

Trade finances

During the period, repayment of MNT 18,669 million were made and additional funding of MNT 81,222 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 6 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 2023:

Bank of Mongolia

Mortgage funding program

Under the Mortgage funding program, the Bank receives funding from BoM, which bears interest rate of 1% - 2% p.a. and the Bank then issues mortgage loans at the interest rate of 3%- 6% p.a. As of 31 December 2023, the Bank received additional mortgage loan funding in amount of MNT 121,017,763 thousands.

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 2023 was MNT 1.1 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 Credit Risk Officer Resolution No.05/430, refinancing loans for fuel reserve purposes will be disbursed. The loan bears annual interest rate of 14% and the outstanding balance as of 31 December 2023 was MNT 41.9 billion. The funds shall mature in December 2024.

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 2 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 2023, the loans had outstanding balances of MNT 32,506 million (2022: MNT 32,954 million). The MNT funds shall mature in 2033.

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 35,288 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 2023 was MNT 22,930 million.

23. Borrowed funds (Continued)

Borrowed funds from government organizations (Continued)

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 9.6 billion project loan and the funding cost is 5% per annum. As of 31 December 2023, the outstanding balance was MNT 7.2 billion. The funds shall mature in August 2033.

Income support program

The Bank signed the Agreement to disburse the purpose of promoting household revenue of residents in target areas determined by Good Neighbours International NGO as well as enhancing their living quality and social and economic capacity with the Good Neighbors Mongolia on 6 October 2023. The funding cost is 3% per annum. As of 31 December 2023, the outstanding is MNT 1.2 billion. The funds shall mature in October 2025.

Ministry of Labor and Social Welfare – Employment Support Fund

(i) *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 2023, the outstanding is MNT 586.9 million. The funds shall mature in October 2024.

(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 26 December 2022. The funding cost is 4.4% per annum. As of 31 December 2023, the outstanding is MNT 3.35 billion. The funds shall mature in December 2025.

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 2023, the outstanding balance is MNT 4.85 billion. The funds shall mature in July 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 2023, the outstanding balance is MNT 2.77 billion.

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).

The Bank was in compliance with covenants at 31 December 2023 and 31 December 2022.

24. Other liabilities

In thousands of MNT	**31 December 2023**	**31 December 2022**
Other financial liabilities:		
Liabilities for settlement of transactions	79,774,247	58,248,972
Payables and accrued expenses	37,372,135	34,910,447
Temporary card payables	31,960,367	35,796,352
Allowance for off balance commitments (Note 36)	12,534,864	6,206,949
Other non-financial liabilities:		
Salary payables	19,666,057	10,066,639
Tax payables other than income tax	9,700,389	937,273
Deferred revenue	643,756	316,577
Total other liabilities	**191,651,815**	**146,483,209**

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.

25. Share capital, other reserves and dividends

Share Capital

	Number of shares authorised, issued and fully paid		**Amount**	
	31 December 2023	**31 December 2022**	**31 December 2023** MNT'000	**31 December 2022** MNT'000
Total Ordinary shares	1,912,198,000	1,720,978,200	191,219,800	172,097,820
Share premium	-	-	164,257,808	-
Net shares at year end	**1,912,198,000**	**1,720,978,200**	**355,477,608**	**172,097,820**

The Bank has launched an initial public offering (IPO) of its shares through the Mongolian Stock Exchange (MSE) between 13 - 19 April 2023. The Bank's IPO has successfully concluded with oversubscription of 183%. On 22 June 2023, the BoM has approved the request of the Bank to book IPO funds in the Bank's equity. Upon approval from the BoM, the IPO proceeds of MNT 183,379,788 thousands were recorded in equity. Out of which, MNT 19,121,980 thousands accounted as an increase in ordinary shares at a nominal value of MNT 100, while the remaining MNT 164,257,808 thousands accounted as share premium, as the difference between share price at IPO and nominal value. As approved by the BoM on 22 March 2023, the Bank distributed dividends to the shareholders in amount of MNT 180,702,711 thousands.

The shareholders of the Bank as of 31 December 2023 and 31 December 2022 and percentage of ownership are as follows:

	31 December 2023	**31 December 2022**
HS Holdings Co. Ltd	40.99%	45.55%
Tavan Bogd Trade Co. Ltd	22.78%	25.31%
Khulan D.	13.22%	14.69%
H.S. International (Asia) Ltd	8.78%	9.75%
Employees	4.23%	4.70%
Public	10.00%	-
Total ordinary shares	**100.00%**	**100.00%**

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

Other reserves

In thousands of MNT	Cash flow hedge reserve	FVOCI reserve	Asset revaluation reserve	Total other reserves
At 31 December 2023				
At 1 January 2023	(10,420,015)	(3,452,623)	88,384,098	74,511,460
Depreciation	–	–	(2,201,645)	(2,201,645)
Unrealised loss on FVOCI investments	–	9,843,033	–	9,843,033
Fair value loss on hedging instruments (Note 12)	(18,255,772)	–	–	(18,255,772)
Revaluation on hedging instrument reclassified to profit or loss against hedged item	21,318,201	–	–	21,318,201
Net realised loss reclassified to profit or loss	7,190,948	–	–	7,190,948
Net charge for expected credit losses on debt instruments at FVOCI	–	(217,284)	–	(217,284)
Deferred tax asset recognised in OCI (Note 32.2)	(2,563,344)	(2,406,437)	–	(4,969,781)
Net movement to other comprehensive income	7,690,033	7,219,312	(2,201,645)	12,707,700
At 31 December 2023	**(2,729,982)**	**3,766,689**	**86,182,453**	**87,219,160**

In thousands of MNT	Cash flow hedge reserve	FVOCI 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 FVOCI investments	–	(12,022,518)	–	(12,022,518)
Fair value gain on hedging instruments (Note 12)	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 32.2)	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**

26. Interest and similar income

In thousands of MNT	2023	2022
Interest income calculated using the effective interest method		
Loans and advances to customers	1,376,822,871	1,073,427,355
Cash and cash equivalent	400,713,505	204,955,610
Debt instruments at AC	76,713,503	40,739,993
Debt instruments at FVOCI	8,560,941	8,268,189
Due from banks	2,004,373	-
Total interest income calculated using the effective interest method	**1,864,815,193**	**1,327,391,147**

Other similar interest income

In thousands of MNT	2023	2022
Debt instruments at FVTPL	29,093,144	17,339,939
Loans and advances to customers at FVTPL	14,321,295	22,634,596
Total other similar interest income	**43,414,439**	**39,974,535**

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.

27. Interest and similar expense

In thousands of MNT	2023	2022
Customer accounts	587,269,083	368,195,946
Borrowed funds	163,063,975	73,123,072
Interest expense of hedge eligible swaps	27,959,347	6,915,692
Debt securities in issue	13,999,172	-
Due to banks	12,474,527	27,636,217
Total interest expense	**804,766,104**	**475,870,927**

Other similar interest expense

In thousands of MNT	2023	2022
Interest expense on hedge non-eligible swaps	13,349,300	3,414,988
Lease liability	1,966,273	1,798,399
Unwinding of modification losses from financial assets	727,009	-
Total other similar interest expense	**16,042,582**	**5,213,387**

28. Net fees and commission income

In thousands of MNT	2023	2022
Fees and commission income		
Commissions on operations with plastic cards	134,127,436	129,002,513
Commissions on mobile and internet services	116,937,472	110,782,991
Commissions on settlement transactions	16,964,575	13,467,905
Commissions on documentary business and guarantees	3,546,341	3,419,825
Commissions on cash operations	1,835,710	2,359,702
Commissions on transfer payments	241,410	305,274
Other	7,981,409	4,128,433
Total fees and commission income	**281,634,353**	**263,466,643**
Fees and commission expenses		
Commission on mobile services	27,154,247	22,950,674
Commissions on operations with plastic cards	21,380,036	16,972,997
Commissions on settlement transactions	9,267,553	6,833,556
Commissions on foreign exchange operations	1,888,925	1,030,614
Total fees and commission expenses	**59,690,761**	**47,787,841**
Net fees and commission income	**221,943,592**	**215,678,802**

Fee and commission income is recognised 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.

29. Net (losses)/gains from financial derivatives

In thousands of MNT	2023	2022
Net realised loss on hedging	(7,141,463)	(1,268,618)
Ineffectiveness of hedging	(4,634,804)	15,273,535
Fair value change of swaps, not hedged	(827,746)	1,873,472
Total net (losses)/gains from financial derivatives	**(12,604,013)**	**15,878,389**

30. 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	**2023**	**2022**
Net charge/(reversal) for ECL allowance:		
Cash and cash equivalents (Note 7)	(1,155,522)	931,403
Mandatory reserves with the BoM (Note 8)	1,262,104	1,969,109
Loans and advances to customers (Note 13)	85,822,040	138,534,121
Debt instrument measured at AC (Note 10)	942,314	2,640,432
Debt instrument measured at FVOCI (Note 10)	(217,284)	(1,767,018)
Off balance sheet commitments (Note 36)	6,327,915	332,843
Other assets (Note 14)	(220,320)	873,348
Total ECL allowance	**92,761,247**	**143,514,238**

During 2023, MNT 33,128,555 thousands of ECL charge was reversed as a result of repayment of 2 non-performing loans, which was one off recovery case.

31. Operating expenses

In thousands of MNT	2023	2022
Salaries, wages, and bonuses	169,146,648	138,612,201
IT related service expense	99,681,682	63,705,516
Depreciation of property and equipment (Note 15)	55,676,503	54,489,263
Deposit insurance fee	26,879,455	18,676,189
Contribution to social and health fund	20,748,148	16,948,218
Premises repair and maintenance expense	20,736,904	16,020,919
Amortisation of intangible assets (Note 16)	18,292,815	20,643,564
Marketing and advertisement expenses	11,602,083	8,808,130
Office materials and supplies	11,385,774	8,719,117
Depreciation of right of use assets (Note 17)	8,438,579	7,623,736
Taxes other than income tax	8,036,988	6,087,663
Security services	5,890,783	5,768,829
Contribution for bank stabilization fund	4,605,537	3,687,185
Information and telecommunication services	4,321,496	3,224,255
Professional services	4,052,471	2,698,269
Transportation	3,874,097	3,650,044
Training expenses	3,537,942	1,648,789
Events	3,381,287	2,185,960
Business trip expenses	2,529,101	1,623,042
Insurance	1,925,472	1,571,307
Short term-lease expense	1,687,294	1,543,698
Research expenses	1,524,750	3,394,837
Other	14,782,024	20,712,474
Total	**502,737,833**	**412,043,205**

In thousands of MNT	2023	2022
Contribution to social and health fund costs consist of:		
Contribution to state social and health fund	6,639,407	5,423,430
Contribution to state pension fund	14,108,741	11,524,788
Total	**20,748,148**	**16,948,218**

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.
Salaries increased in the current year because of the increase in employees' base salary in May and October 2023.

The audit fees and charged by the auditors in the financial year 2023 was MNT 771,905 thousands and other non-audit services including IT related services was MNT 676,795 thousands, HR and soft skills training was MNT 104,911 thousands and tax and legal consulting services was MNT 290,057 thousands.

32. Income tax

32.1 Income tax expense

The components of income tax expense for the year ended 31 December 2023 and 31 December 2022 are:

In thousands of MNT	**2023**	**2022**
Current tax:		
Current income tax	184,798,981	136,009,119
Deferred tax:		
Relating to temporary differences and tax losses	(823,532)	6,051,906
Total income tax expense	**183,975,449**	**142,061,025**

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 authorized 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.

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 6,000,000 thousands (2022: 6,000,000 thousands) of taxable income and 25% on the excess of taxable income over MNT 6,000,000 thousands (2022: 6,000,000 thousands). 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 2023 is as follows:

In thousands of MNT	**2023**	**2022**
Profit before taxation	742,758,322	590,833,224
Tax at statutory rate of 25% (2022: 25%)	185,689,580	147,708,306
Effect of expenses not deductible for income tax purpose	6,786,271	5,009,070
Tax exempted income - Government bond	(12,492,373)	(8,866,357)
Income taxed at different rates	(130,422)	(889,994)
Over provision of current tax	5,022,393	-
Effect of income subject to lower tax rate	(900,000)	(900,000)
Tax expense for the year	**183,975,449**	**142,061,025**

32. Income tax (Continued)

The effective income tax rate for 2023 is 24.77% (2022:24.09%).

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

32.2 Deferred tax

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.

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 2023	**1,150,874**	**1,059,844**	**(6,919,969)**	**(4,709,251)**
Recognised in statement of other comprehensive income (Note 25)	(2,406,437)	(2,563,345)	-	(4,969,782)
Recognised in profit or loss	-	3,365,452	(2,541,920)	823,532
As at 31 December 2023	**(1,255,563)**	**1,861,951**	**(9,461,889)**	**(8,855,501)**
As at 1 January 2022	**(1,854,755)**	**1,169,341**	**(3,894,179)**	**(4,579,593)**
Recognised in statement of OCI (Note 25)	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)**

32.3 Current income tax liabilities

In thousands of MNT	31 December 2023	31 December 2022
Income tax liability as at 1 January	3,957,990	2,167,852
Current income tax expense	184,798,981	136,009,119
Tax paid	(161,390,205)	(134,218,981)
Income tax liability as at 31 December	**27,366,766**	**3,957,990**

33. 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.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 2023	31 December 2022
Profit attributable to ordinary equity holders - basic and diluted	**558,782,873**	**448,772,199**
Adjusted weighted average number of ordinary shares for EPS	**1,818,945,604**	**1,720,978,200**

Earnings per share

In thousands of MNT	31 December 2023	31 December 2022
Equity holders of the Bank for the period:		
Basic earnings per share	**307**	**261**
Diluted earnings per share	**307**	**261**

34. 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**	**Debt securities in issue**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January 2023	**1,776,932,717**	**367,267,329**	**-**	**11,231,249**	**2,155,431,295**
Cash transactions					
Cash inflows	957,358,478	958,913,403	226,762,400	-	2,143,034,281
Cash outflows	(616,157,388)	(1,271,488,927)	-	(8,410,670)	(1,896,056,985)
Interest paid	(57,486,650)	(4,643,211)	(9,638,271)	(1,966,273)	(73,734,405)
Non- cash transactions					
New leases	-	-		10,215,762	10,215,762
Interest accrued	163,063,975	10,133,488	13,999,172	1,966,273	189,162,908
Foreign exchange adjustments	(101,989,262)	-	(7,124,719)	-	(109,113,981)
Liabilities from financing activities at 31 December 2023	**2,121,721,870**	**60,182,082**	**223,998,582**	**13,036,341**	**2,418,938,875**

	Liabilities from financing activities			
In thousands of MNT	**Other borrowed funds**	**Repo agreement**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January 2022	**1,191,916,946**	**620,802,675**	**11,085,695**	**1,823,805,316**
Cash transactions				
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**

35. 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 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, small business loan 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 2023 or 2022.

35. Segment Analysis (Continued)

As at 31 December 2023 *In thousands of MNT*	**Retail Banking**	**SME Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
Interest income calculated using effective interest method	1,027,335,167	164,315,805	165,054,608	490,520,196	17,589,417	1,864,815,193
Business loan product	319,680,624	157,083,813	164,071,665	-	5,710,068	646,546,170
Consumer loan product	707,654,543	7,231,992	193,391	-	11,879,349	726,959,275
Other interest income	-	-	789,552	490,520,196	-	491,309,748
Other similar interest income	14,864,119	2,500,421	215,887	25,775,717	58,295	43,414,439
Interest expense	(564,533,934)	(10,518,339)	(11,216,862)	(230,813,284)	12,316,315	(804,766,104)
Individual	(532,457,646)	(4,921,192)	(1,815)	-	(639,755)	(538,020,408)
Corporate	(32,076,288)	(5,597,147)	(11,215,047)	(230,813,284)	12,956,070	(266,745,696)
Other similar interest expense	-	-	-	-	(16,042,582)	(16,042,582)
Distribution of Head Office cost allocated to Net interest income distribution	169,584,777	24,951,663	33,883,569	-	(228,420,009)	-
Transactions within operating segments	202,039,530	(73,636,170)	(85,308,782)	(285,347,267)	242,252,689	-
Net margin on interest and similar income	**679,704,882**	**82,661,717**	**68,744,851**	**135,362**	**256,174,134**	**1,087,420,946**
Credit loss (allowance)/recovery	(71,684,297)	(26,225,009)	6,441,853	(831,612)	(462,182)	(92,761,247)
Net margin on interest and similar income after credit loss allowance	**608,020,585**	**56,436,708**	**75,186,704**	**(696,250)**	**255,711,952**	**994,659,699**
Fees and commission income	245,001,659	8,808,638	25,733,156	2,090,900	-	281,634,353
Fees and commission expense	(48,234,655)	(1,525,709)	(4,733,967)	(5,196,430)	-	(59,690,761)
Net (losses)/gains from financial derivatives	-	-	-	(12,604,013)	-	(12,604,013)
Gains less losses from trading in foreign currencies	9,198,040	872,890	2,692,404	17,509,348	-	30,272,682
Foreign exchange translation gains less losses	-	-	-	1,429,362	-	1,429,362
Net gains/(losses) from debt securities at FVOCI	-	-	-	1,746,029	-	1,746,029
Gains less losses from debt securities at AC	-	-	-	1,133,461	-	1,133,461
Gains less losses from debt securities at FVTPL	-	-	-	1,010,247	-	1,010,247
Net gains/(losses) from modification of financial assets at AC	2,035,266	2,265,105	(4,300,371)	-	5,426,968	5,426,968
Other operating income	513,741	946	-	8,384	2,540,304	3,063,375
Operating expenses	(184,704,108)	(7,028,781)	(1,399,608)	(3,414,066)	(306,191,270)	(502,737,833)
Other losses, net	(220,650)	45,423	-	-	(2,410,020)	(2,585,247)
Profit before tax	**631,609,878**	**59,875,220**	**93,178,318**	**3,016,972**	**(44,922,066)**	**742,758,322**
Total assets	**6,786,463,451**	**1,074,331,315**	**1,311,226,262**	**7,625,621,739**	**552,999,306**	**17,350,642,073**
Total liabilities	**10,825,261,438**	**580,832,872**	**986,624,139**	**2,353,044,258**	**513,144,005**	**15,258,906,712**
Capital expenditure	**23,721,689**	**85,731**	**-**	**-**	**45,467,679**	**69,275,099**

35. 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	745,437,868	143,224,966	155,549,148	255,146,890	28,032,275	1,327,391,147
Business loan product	260,701,465	138,577,528	155,415,566	-	5,840,897	560,535,456
Consumer loan product	484,736,403	4,647,438	133,582	-	22,191,378	511,708,801
Other interest income	-	-	-	255,146,890	-	255,146,890
Other similar interest income	15,795,013	6,994,651	870,536	16,156,841	157,494	39,974,535
Interest expense	(355,837,724)	(4,089,201)	(6,215,226)	(111,092,001)	1,363,225	(475,870,927)
Individual	(346,874,151)	(1,597,442)	(160,562)	-	(1,771,459)	(350,403,614)
Corporate	(8,963,573)	(2,491,759)	(6,054,664)	(111,092,001)	3,134,684	(125,467,313)
Other similar interest expense	-	-	-	-	(5,213,387)	(5,213,387)
Head Office cost distribution	112,828,610	19,186,510	26,952,496	-	(158,967,616)	-
Transactions within operating segments	78,019,744	(80,392,577)	(93,175,523)	(55,457,945)	151,006,301	-
Net margin on interest and similar income	**483,414,901**	**65,737,839**	**57,028,935**	**104,753,785**	**175,345,908**	**886,281,368**
Credit loss allowance	(66,022,262)	(41,691,951)	(29,998,121)	(3,772,670)	(2,029,234)	(143,514,238)
Net margin on interest and similar income after credit loss allowance	**417,392,639**	**24,045,888**	**27,030,814**	**100,981,115**	**173,316,674**	**742,767,130**
Fees and commission income	240,592,272	5,204,684	15,769,722	1,899,965	-	263,466,643
Fees and commission expense	(38,988,179)	(1,213,097)	(3,737,768)	(3,848,797)	-	(47,787,841)
Gains from modification of borrowed fund at AC	-	-	-	2,275,457	-	2,275,457
Net (losses)/gains 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
Foreign exchange translation gains less losses	-	-	-	6,574,939	-	6,574,939
Net gains/(losses) from debt securities at FVOCI	-	-	-	(900,167)	-	(900,167)
Net gains/(losses) from modification of financial assets 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	(155,822,091)	(4,726,168)	(33,171)	(4,820,879)	(246,640,896)	(412,043,205)
Other losses, net	(507,792)	(1,344)	-	-	239,480	(269,656)
Profit before tax	**474,397,998**	**24,641,778**	**42,425,321**	**118,620,926**	**(69,252,799)**	**590,833,224**
Total assets	**5,484,043,084**	**985,297,526**	**1,112,770,192**	**6,843,557,623**	**527,044,921**	**14,952,713,346**
Total liabilities	**9,081,549,935**	**486,641,238**	**1,286,864,566**	**1,961,044,649**	**621,246,892**	**13,437,347,280**
Capital expenditure	**25,175,184**	**264,100**	**-**	**-**	**48,001,901**	**73,441,185**

35. Segment Analysis (Continued)

In thousands of MNT	Retail Banking	SME Banking	Corporate Banking	Treasury	Total
2023					
Commissions on operations with plastic cards	107,309,743	6,529,071	20,288,492	130	134,127,436
Commissions on mobile and internet services	115,130,192	527,937	1,279,343	-	116,937,472
Commissions on settlement transactions	13,604,350	443,549	977,794	1,938,882	16,964,575
Commissions on documentary business and guarantees	327,209	722,522	2,421,145	75,465	3,546,341
Commissions on cash operations	1,605,286	106,444	108,147	15,833	1,835,710
Commissions on transfer payments	199,658	10,269	31,483	-	241,410
Other	6,825,221	468,846	626,752	60,590	7,981,409
Total fees and commission income for 2023	**245,001,659**	**8,808,638**	**25,733,156**	**2,090,900**	**281,634,353**

In thousands of MNT	Retail Banking	SME Banking	Corporate Banking	Treasury	Total
2022					
Commissions on operations with plastic cards	114,587,304	3,486,167	10,928,915	127	129,002,513
Commissions on mobile and internet services	108,372,165	683,078	1,727,748	-	110,782,991
Commissions on settlement transactions	11,115,642	275,461	341,950	1,734,852	13,467,905
Commissions on documentary business and guarantees	279,630	427,082	2,598,479	114,634	3,419,825
Commissions on cash operations	2,136,438	167,601	35,728	19,935	2,359,702
Commissions on transfer payments	257,050	11,837	36,208	179	305,274
Other	3,844,043	153,458	100,694	30,238	4,128,433
Total fees and commission income for 2022	**240,592,272**	**5,204,684**	**15,769,722**	**1,899,965**	**263,466,643**

36. 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 2023			31 December 2022		
In thousands of MNT	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Contingent liabilities						
Guarantees issued	142,011,464	(751,531)	141,259,933	109,875,380	(493,937)	109,381,443
Letters of credit	27,347,449	(185,163)	27,162,286	24,667,537	(143,760)	24,523,777
Undrawn credit lines	636,504,815	(10,317,573)	626,187,242	640,182,957	(4,954,504)	635,228,453
Undrawn credit cards	52,416,065	(1,279,543)	51,136,522	61,741,646	(614,748)	61,126,898
Factoring receivable	200,000	(1,054)	198,946	-	-	-
Total contingent liabilities	**858,479,793**	**(12,534,864)**	**845,944,929**	**836,467,520**	**(6,206,949)**	**830,260,571**
Capital related commitments						
Property and equipment	1,025,293	-	1,025,293	2,585,144	-	2,585,144
Total	**859,505,086**	**(12,534,864)**	**846,970,222**	**839,052,664**	**(6,206,949)**	**832,845,715**

36. Contingencies and Commitments (Continued)

Expected credit loss allowance for off balance sheet commitments:

Undrawn credit lines:

	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 im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
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**
New originated or purchased/increases	18,170,402	4,736,822	4,935,606	**27,842,830**	2,802,838,908	215,855,499	6,398,817	**3,025,093,224**
Exposures derecognised or matured/lapsed	(17,475,596)	(2,929,133)	(2,777,392)	**(23,182,121)**	(2,844,569,050)	(179,905,976)	(4,296,340)	**(3,028,771,366)**
- Transfers to Stage 1	748	(3,718)	-	**(2,970)**	1,600,593	(1,600,593)	-	**-**
- Transfers to Stage 2	(214,841)	714,531	-	**499,690**	(15,694,664)	15,694,664	-	**-**
- Transfers to Stage 3	-	(196,491)	402,131	**205,640**	-	(957,887)	957,887	**-**
At 31 December 2023	**3,491,207**	**3,189,451**	**3,636,915**	**10,317,573**	**507,285,464**	**122,567,559**	**6,651,792**	**636,504,815**

	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 im-paired)	Total	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**

36. 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 2022	**233,325**	**23,317**	**358,106**	**614,748**	**59,188,664**	**1,503,980**	**1,049,002**	**61,741,646**
New originated or purchased/ increases	672,842	121,332	2,681,402	**3,475,576**	154,339,455	3,023,447	4,650,482	**162,013,384**
Exposures derecognised or matured/lapsed	(750,028)	(95,626)	(2,675,133)	**(3,520,787)**	(163,035,681)	(3,574,693)	(4,728,591)	**(171,338,965)**
- Transfers to Stage 1	1,690	(85,555)	-	**(83,865)**	387,786	(387,786)	-	**-**
- Transfers to Stage 2	(13,695)	115,355	(85,515)	**16,145**	(1,594,264)	1,718,054	(123,790)	**-**
- Transfers to Stage 3	-	(71,034)	848,760	**777,726**	-	(1,096,208)	1,096,208	**-**
At 31 December 2023	**144,134**	**7,789**	**1,127,620**	**1,279,543**	**49,285,960**	**1,186,794**	**1,943,311**	**52,416,065**

	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**

36. Contingencies and Commitments (Continued)

Guarantees issued:

In thousands of MNT	Credit loss allowance Stage 1	Gross carrying amount Stage 1
At 31 December 2022	**493,937**	**109,875,380**
New exposures	2,538,314	622,681,880
Exposures derecognised or matured/lapsed	(2,280,720)	(590,545,796)
At 31 December 2023	**751,531**	**142,011,464**

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**

Letters of credits

In thousands of MNT	Credit loss allowance Stage 1	Gross carrying amount Stage 1
At 31 December 2022	**143,760**	**24,667,537**
New exposures	284,489	50,114,668
Exposures derecognised or matured/lapsed	(243,086)	(47,434,756)
At 31 December 2023	**185,163**	**27,347,449**

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**

Factoring receivable

In thousands of MNT	Credit loss allowance Stage 1	Gross carrying amount Stage 1
At 31 December 2022	**-**	**-**
New exposures	1,054	200,000
Exposures derecognised or matured/lapsed	-	-
At 31 December 2023	**1,054**	**200,000**

36. Contingencies and Commitments (Continued)

		31 December 2023						31 December 2022				
	PD range	Undrawn credit lines	Undrawn credit cards	Guarantees issued	Import letters of credit	Factoring receivable	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%	14,158,770	19,930,258	-	-	-	34,089,028	35,220,891	14,537,567	-	-	49,758,458
	from 0,15% to 0,25%	-	1,431,925	-	-	-	1,431,925	-	1,769,507	-	-	1,769,507
	from 0,25% to 0,50%	12,372,167	-	-	-	-	12,372,167	51,881,802	2,009,769	-	-	53,891,571
	from 0,50% to 0,75%	2,492,387	1,386,033	-	-	-	3,878,420	-	2,891,209	-	-	2,891,209
	from 0,75% to 2,50%	37,049,948	7,051,437	-	-	-	44,101,385	32,639,060	37,675,676	-	-	70,314,736
	from 2,50% to<10,0%	441,132,192	19,386,014	142,011,464	27,347,449	200,000	630,077,119	443,362,909	-	109,875,380	24,667,537	577,905,826
	from 10,0% to<45,0%	80,000	100,293	-	-	-	180,293	-	147,601	-	-	147,601
	from 45,0% to<64,0%	-	-	-	-	-	-	5,015	157,335	-	-	162,350
	Total Stage 1	**507,285,464**	**49,285,960**	**142,011,464**	**27,347,449**	**200,000**	**726,130,337**	**563,109,677**	**59,188,664**	**109,875,380**	**24,667,537**	**756,841,258**
Stage 2	from 0,00% to <0,15%	1,319,769	1,086,319	-	-	-	2,406,088	460,080	1,105,155	-	-	1,565,235
	from 0,15% to <0,25%	-	747	-	-	-	747	-	18,349	-	-	18,349
	from 0,25% to <0,50%	2,591,134	-	-	-	-	2,591,134	3,303,957	20,798	-	-	3,324,756
	from 0,50% to <0,75%	-	45	-	-	-	45	-	19,838	-	-	19,838
	from 0,75% to <2,50%	1,262,786	40,005	-	-	-	1,302,791	15,116,997	119,133	-	-	15,236,130
	from 2,50% to <10,0%	67,495,258	19,641	-	-	-	67,514,899	31,473,511	82,797	-	-	31,556,308
	from 10,0% to <45,0%	49,898,442	6,551	-	-	-	49,904,993	23,099,202	34,595	-	-	23,133,796
	above 45,0%	171	33,487	-	-	-	33,658	28,105	103,315	-	-	131,420
	Total Stage 2	**122,567,560**	**1,186,795**	**-**	**-**	**-**	**123,754,355**	**73,481,852**	**1,503,980**	**-**	**-**	**74,985,832**

36. Contingencies and Commitments (Continued)

		31 December 2023						31 December 2022				
	Default period	Undrawn credit lines	Undrawn credit cards	Guarantees issued	Import letters of credit	Factoring receivable	Gross carrying amount	Undrawn credit lines	Undrawn credit cards	Guarantees issued	Import letters of credit	Gross carrying amount
Stage 3	up to 12 months	3,026,546	1,481,594	-	-	-	4,508,140	2,965,572	690,204	-	-	3,655,776
	from 13 to 24 months	2,785,801	286,135	-	-	-	3,071,936	167,676	190,995	-	-	358,671
	from 25 to 36 months	641,145	98,898	-	-	-	740,043	136,203	152,927	-	-	289,130
	from 37 to 48 months	7,533	73,472	-	-	-	81,005	-	2,622	-	-	2,622
	from 49 to 60 months	-	1,961	-	-	-	1,961	149,337	10,594	-	-	159,931
	from 61 to 84 months	160,766	1,250	-	-	-	162,016	142,640	1,660	-	-	144,300
	above 84 months	30,000	-	-	-	-	30,000	30,000	-	-	-	30,000
	Total Stage 3	**6,651,791**	**1,943,310**	**-**	**-**	**-**	**8,595,101**	**3,591,428**	**1,049,002**	**-**	**-**	**4,640,430**

36. 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 thousands 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 a number of appeals and dismissals from both parties. In 2022, Khan bank appealed the 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. On 3 January 2024, the court of first instance ruled the Bank to pay partially to tax authority. The bank is planning to appeal the decision.

A provision for tax penalty in total of MNT 8,093,019 thousands (31 December 2022: 4,400,000 thousands) was provided for as at 31 December 2023.

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 thousands 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, but the additional MNT 667 million was dismissed by the Primary court.

The dispute had arisen as a result of a different legal interpretations between the two parties. The case has been heard at Primary court, Appellate court, and Supreme court for several times in prior 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. During the court session held on 20 November 2023, the Bank requested to disqualify the judge, therefore, the case was adjourned indefinitely. The management believe that having taken necessary legal advise, the outcome is more likely to be in the Bank's favour, therefore did not recognise any provision as at 31 December 2023 and 31 December 2022.

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. 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 2022 and 31 December 2023 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.

Given that tax regulations do not explicitly address tax base of impairment provision for loans, Mongolian tax regulations can be subject to different interpretations.

36. Contingent liabilities and commitments (Continued)

Possible income tax liability (Continued)

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. For the amount of the ECL provision in accordance with statutory Bank of Mongolia rules and IFRS, please refer to the Note 37 and Note 13 respectively.

37. Financial risk management

The risk management function within the Bank is carried out with respect to financial risks, operational and legal risks, including 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 Deputy Chief Executive Officer (DCEO).

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.

Within scope of the Bank’s mid-term strategy, the Bank has introduced the Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP) based on the standardized approaches of the Basel Framework.

In addition, the monetary policy and banking sector reform program of the Bank of Mongolia specified an objective “To comply supervisory review and evaluation process of the banking sector with the international best practices and principles and establish a sound and robust banking system based on policy implementation”.

In line with the objective, the Bank has prepared and submitted preliminary ICLAAP assessments and reports to the Bank of Mongolia for Supervisory Review and Evaluation Process in 2023.

37.1 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.

37. Financial risk management (Continued)

37.1 Risk management structure (Continued)

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. The risk management committee regularly monitors the Bank's risk management framework and risk management process, identifies and evaluates the main high-level risks of the Bank, and discusses, decides on the measures and strategies to be taken in relation to that risk. The risk management committee records core risk levels and relevant measures it in the risk dashboard. The risk dashboard is updated monthly and used for decision making. The Risk Management Committee is chaired by the Vice president Chief risk officer and it holds meetings once a month.

Asset and Liability Committee ("ALCO"). ALCO is responsible for providing centralised asset and liability management of the funding, liquidity, foreign currency exposure, maturity mismatch 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.

37.2 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.

37. Financial risk management (Continued)

37.2 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. Small and Medium Enterprise Banking credit committee (SMECC)
   c. Mortgage credit committee (IMCC)
   d. Branch credit committee of UB retail banking (BCC UBRB)
   e. Branch credit committees of Rural retail banking (BCC RRB)
   f. 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 and BCC.
3. SME Banking credit committee receives loan proposals amounted up to MNT 800 million and makes decision.
4. IMCC approves mortgage loans up to MNT 500 million for branches of Retail banking and business centres of SME banking.
5. BCC UBRB approves credit exposures of up to MNT 500 million except mortgage loans for branches of UB retail banking.
6. BCC RRB authority shall be different depending on population at that area and market features and approves credit exposures amounted between MNT 200 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.
7. 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 two approaches – an Internal PD intervals or risk grades estimated by external international rating agencies (Standard & Poor's – "S&P", Fitch, Moody's). Internal PD intervals mapping to Stages as of year ended 31 December 2023 please refer to Note 13 and 36. External credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding ratings of external international rating agencies (S&P)	Corresponding PD interval
Excellent	AAA rating	0%
Excellent	AA– to AA+ rating	0% - 0.0001%
Excellent	A– to A+ rated	0.0001% - 0.0002%
Good	BBB– to BBB+ rated	0.0003% - 0.0004%
Good	BB– to BB+ rated	0.0014% - 0.0028%
Satisfactory	B– to B+ rated	0.0032% - 3.2482%
Default	C to CCC+ rated	100%
Speculative grade	Not rated	0.0110%-4.0118%

37. Financial risk management (Continued)

37.2 Credit risk (Continued)

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.

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, 10 and 13.

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.

37. Risk management (Continued)

37.2 Credit risk (Continued)

Expected credit loss (ECL) measurement (continued): For the purpose of the Bank of Mongolia reporting, different rules apply for estimation of loan ECL. The amount of ECL as per BoM rule as of 31 December 2023 was MNT 398,309,774 thousands (MNT 338,556,828 thousands as of 31 December 2022).

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;
- 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;
- 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.

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 is performed if 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:

(i) Loans with gross value of above MNT 2,000,000 thousands and with DPD +30 days or restructured;
(ii) Loans with gross value of above MNT 1,000,000 thousands and included in "Watchlist" by internal grading.

37. Financial risk management (Continued)

37.2 Credit risk (Continued)

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.

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.

37. Financial risk management (Continued)

37.2 Credit risk (Continued)

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.

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 back testing is performed at least once a year.

The results of back testing 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.

37. Financial risk management (Continued)

37.3 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, and (d) financial instruments (including derivatives), 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.

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.

37.4. 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 aggregate 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, 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 2023				At 31 December 2022			
In thousands of MNT	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
MNT	14,382,830,752	(11,124,138,959)	(1,674,375,258)	1,584,316,535	11,033,605,880	(9,041,716,734)	(1,177,315,414)	814,573,732
USD	1,734,884,856	(3,530,737,450)	1,716,515,636	(79,336,958)	2,647,234,835	(3,857,780,654)	1,301,466,648	90,920,829
EUR	22,410,954	(16,180,375)	(54,010)	6,176,569	19,408,755	(19,577,161)	(33,162)	(201,568)
CNY	480,278,205	(474,355,148)	(8,184)	5,914,873	477,834,556	(469,266,033)	-	8,568,523
Other	67,778,812	(41,563,758)	(515,907)	25,699,147	52,296,621	(24,122,071)	(354,721)	27,819,829
Total	**16,688,183,579**	**(15,186,975,690)**	**41,562,277**	**1,542,770,166**	**14,230,380,647**	**(13,412,462,653)**	**123,763,351**	**941,681,345**

37. Financial risk management (Continued)

37.4 Currency risk (Continued)

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 2023**	**At 31 December 2022**
USD strengthening by 15% (2022: strengthening by 15%)	(11,900,544)	13,638,124
USD weakening by 15% (2022: weakening by 15%)	11,900,544	(13,638,124)
EUR strengthening by 15% (2022: strengthening by 15%)	926,485	(30,235)
EUR weakening by 15% (2022: weakening by 15%)	(926,485)	30,235
CNY strengthening by 15% (2022: strengthening by 15%)	887,231	1,285,279
CNY weakening by 15% (2022: weakening by 15%)	(887,231)	(1,285,279)
Other strengthening by 15% (2022: strengthening by 15%)	3,854,872	4,172,974
Other weakening by 15% (2022: weakening by 15%)	(3,854,872)	(4,172,974)

37. Financial risk management (Continued)

37.5. 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 2023						
Total financial assets	5,418,887,907	2,727,309,738	2,028,362,996	5,190,873,927	1,374,980,388	**16,740,414,956**
Total financial liabilities	3,587,864,045	3,290,460,993	2,781,454,452	1,699,089,488	3,833,805,265	**15,192,674,243**
Net interest sensitivity gap at 31 December 2023	1,831,023,862	(563,151,255)	(753,091,456)	3,491,784,439	(2,458,824,877)	**1,547,740,713**
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**

At 31 December 2023, if interest rates at that date had been 100 basis points lower (2022: 100 basis points lower) with all other variables held constant, profit for the year would have been MNT 12,222,949 thousands (2022: MNT 15,890,847 thousands lower) lower, as a result of a positive interest rate gap. Other components of equity would have been MNT 2,918,062 thousands (2022: MNT 2,907,025 thousands) 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 (2022: 100 basis points higher), with all other variables held constant, profit would have been MNT 12,222,949 thousands (2022: MNT 15,890,847 thousands higher) higher, as a result of a positive interest rate gap. Other components of equity would have been MNT 2,109,783 thousands (2022: MNT 787,938 thousands) lower, as a result of a decrease in the fair value of fixed rate financial assets at fair value through other comprehensive income.

37. Financial risk management (Continued)

37.5. 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:

	2023					2022				
In % p.a.	**MNT**	**USD**	**EUR**	**CNY**	**Other**	**MNT**	**USD**	**EUR**	**CNY**	**Other**
Assets										
Cash and cash equivalents	10.14%	2.79%	0%	0%	0%	8.49%	1.41%	0%	0%	0%
Mandatory reserves	6.00%	0%	-	-	-	5.50%	0%	-	-	-
Investments in debt securities	12.29%	7.87%	-	-	-	12.09%	6.42%	-	-	-
Loans and advances to customers	16.16%	8.38%	7.91%	-	-	13.34%	6.20%	7.35%	-	-
Liabilities										
Due to other banks	12.77%	0.08%	0%	0%	0%	12.91%	0.69%	0%	0%	0%
Repurchase agreements	13.29%	-	-	-	-	8.02%	-	-	-	-
Customer accounts										
- current accounts	0.64%	0.27%	0%	0.24%	0%	0%	0%	0%	0%	0%
- demand deposits	6.58%	1.00%	-	0.60%	-	0%	0%	-	0%	-
- term deposits	12.47%	2.90%	-	2.11%	-	9.72%	2.36%	-	1.46%	-
Debt securities in issue	16.00%	9.66%	-	-	-	-	-	-	-	-
Other borrowed funds	3.22%	8.44%	-	-	-	4.38%	7.12%	4.22%	-	-
Lease liabilities	16.84%	-	-	-	-	15.65%	-	-	-	-

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

37.6. 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 also defines Liquidity risk early warning indicators based on its internal criteria to identify any negative trends and to detect and proactively respond to emergence of increased risks. These indicators enable timely recognition of potential crises or stress events, allowing the Bank to respond promptly and effectively.

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 and 18% of customer’s USD deposit based on the average period of two weeks.

37. Financial risk management (Continued)

37.6. Liquidity risk (Continued)

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

31 December 2023 *In thousands of MNT*	**On demand**	**Less than 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Assets							
Cash and cash equivalents	777,130,513	4,196,480,753	–	–	–	–	4,973,611,266
Mandatory reserve	1,090,955,256	–	–	–	–	–	1,090,955,256
Due from other banks	–	854,881	2,002,708	3,833,747	8,839,327	–	15,530,663
Investments in debt securities	–	304,283,324	431,890,794	92,151,500	757,633,034	911,601,323	2,497,559,975
Investments in equity securities	4,970,548	–	–	–	–	–	4,970,548
Gross settled swaps and forward:							
– Inflows	–	65,522,690	64,201,245	181,630,120	1,525,458,329	21,457,284	1,858,269,668
– Outflows	–	(62,485,103)	(57,051,673)	(174,946,423)	(1,496,061,976)	(20,463,664)	(1,811,008,839)
Loans and advances to customers at amortised cost	–	1,616,863,449	1,603,832,728	2,417,636,295	4,792,688,477	897,184,445	11,328,205,394
Loans and advances to customers at FVTPL	–	5,964,912	4,596,602	9,250,293	69,713,228	206,874,067	296,399,102
Other financial assets	–	6,162,428	–	–	–	–	6,162,428
Total financial assets	**1,873,056,317**	**6,133,647,334**	**2,049,472,404**	**2,529,555,532**	**5,658,270,419**	**2,016,653,455**	**20,260,655,461**
Liabilities							
Due to banks	38,985,374	189,263,601	–	–	–	–	228,248,975
Repurchase agreement	–	1,971,593	1,993,500	63,093,422	–	–	67,058,515
Customer accounts	3,608,857,973	2,110,579,387	1,567,961,356	2,976,671,874	1,982,751,016	461,350,720	12,708,172,326
Derivative financial instruments	–	5,698,552	–	–	–	–	5,698,552
Debt securities in issue	–	–	4,360,902	–	283,726,435	–	288,087,337
Other borrowed funds	13,490,873	120,944,203	75,127,647	345,150,476	1,820,536,961	264,111,132	2,639,361,292
Lease liabilities	–	2,132,993	1,979,114	3,321,932	5,602,302	–	13,036,341
Other financial liabilities	–	161,641,613	–	–	–	–	161,641,613
Total financial liabilities	**3,661,334,220**	**2,592,231,942**	**1,651,422,519**	**3,388,237,704**	**4,092,616,714**	**725,461,852**	**16,111,304,951**
Undrawn credit lines	636,504,815	–	–	–	–	–	636,504,815
Guarantees issued	142,011,464	–	–	–	–	–	142,011,464
Letters of credit	27,347,449	–	–	–	–	–	27,347,449
Undrawn credit cards	52,416,065	–	–	–	–	–	52,416,065
Factoring receivable	200,000	–	–	–	–	–	200,000
Total off-balance sheet items	**858,479,793**	–	–	–	–	–	**858,479,793**
Total financial liabilities and off-balance liabilities	**4,519,814,013**	**2,592,231,942**	**1,651,422,519**	**3,388,237,704**	**4,092,616,714**	**725,461,852**	**16,969,784,744**
Net	**(2,646,757,696)**	**3,541,415,392**	**398,049,885**	**(858,682,172)**	**1,565,653,705**	**1,291,191,603**	**3,290,870,717**

37. Financial risk management (Continued)

37.6 Liquidity risk (Continued)

31 December 2022 *In thousands of MNT*	On demand	Less than 3 months	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 sheet 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**

37. Financial risk management (Continued)

37.6 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 2023						
Financial assets	6,591,425,655	2,788,792,707	2,057,881,620	4,163,478,763	1,138,836,211	**16,740,414,956**
Financial liabilities	5,093,570,221	2,720,148,056	3,093,261,944	3,659,566,191	626,127,831	**15,192,674,243**
Net liquidity gap based on expected maturities	1,497,855,434	68,644,651	(1,035,380,324)	503,912,572	512,708,380	**1,547,740,713**
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**

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.

37. Financial risk management (Continued)

37.7. 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 incidents
- 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 aggregated non-financial risk reports on half-year basis for review and decision by the Risk Management Committee of the Bank. There are several sub-committees under the Risk Management Committee, and the following sub-committees are working at the relevant levels of the bank for more detailed management and control of operational risks:

- 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 Automated risk dashboards, Risk and Control Self-Assessment (RCSA), Loss database, Issue management and Key risk indicators (KRI) 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.

The Bank has implemented RCSA to identify, assess and mitigate risks in selected key business processes and strategic projects in collaboration with relevant stakeholders in accordance with the plan. As part of the RCSA methodology, all identified risks and controls are recorded and monitored in the GRC system in an interconnected manner. Issues and loss events are recorded and analyzed within the context of relevant risks, controls, processes and products.

37. Financial risk management (Continued)

37.7. Operational risk (Continued)

The "Financial Crime and Fraud Management Policy" was approved by the Board of Directors and Bank is working to ensure the implementation of policy in order to effectively implement the processes of preventing financial crime and fraud risk, improving control, reporting and detecting fraud, and taking relevant measures.

In order to reduce the risk affecting the Bank's business goals and strengthen the internal control framework, the Board of Directors has approved the "Internal Control Policy" and the Bank is working to ensure it's implementation. In 2023, the assessment of the Bank's internal control framework was completed. We are also conducting a "Risk Control Matrix (RCM)" Assessment for high-risk business processes, assigning action plans that need to be improved as a result of the assessment, and monitoring their implementation.

37.8. 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 through the implementation of laws and regulations against money laundering and terrorist financing and approval of relevant policies and procedures including the Anti Money Laundering and Financial Crimes Policy as well as Compliance Program.

Legal risk is non-compliance of laws and regulations, rules, instructions and standards approved by the competent regulatory authorities, and failure to make relevant amendments to its contracts upon the introduction of newly approved legislation or amendments in a timely manner, as well as the occasion where the legal action needs to be taken.

Establishing an effective system of anti-money laundering and counter terrorist financing throughout the Bank has become an essential part of building the organization'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.

Key activities carried out in line with the Compliance Program are summarized below:

- Trainings and awareness raising in areas of preventing money laundering and other financial crimes were delivered to all employees throughout the year. In 2023, a total of 12,330 employees in duplicate numbers received classroom and online trainings in 33 separate sessions. In addition, compliance staff received professional designations such as CAMS, CGSS, CKYCA, and ICA certificates, that are well recognized by industry experts and are beneficial to the overall institutional capacity building.
- The Bank underwent an independent audit review by PwC regarding the effectiveness of its AML/CFT processes and resources. The follow-up activities will even further the Bank's overall ability with regards to compliance frameworks.
- Despite ongoing uncertainty in the areas of sanctions regimes, Compliance continued to play integral role in the Bank's navigation and adherence to different sanctions undertakings. Sanctions monitoring system checks were carried out frequently for fine-tuning. As a result, the overall quality of alerts was improved, and preventative actions were taken in timely manner. Considering the timing, the first overall sanctions enterprise-wide risk assessment took place using internationally recognized ACAMS tool and identified further areas of strengthening the risk controls.
- In line with the Bank's strategy to improve KYC process and digital transformation, E-KYC project was implemented to enable remote customer information refresh and non-face-to-face onboarding of minors.
- Strategic meetings with major foreign correspondent banks and lenders took place to provide assurance on the effective compliance controls and culture at the Bank.
- Several information technology projects were implemented by compliance in line with the digital transformation and effective risk control strategy of the Bank such as:
    1. Upgrading of the transaction monitoring system to the next version for better data analytics and introduction of machine learning.
    2. Improving of reporting obligations to Mongolbank by automated report generations from various transactional channels.
    3. Inclusion of additional payment channels in transaction monitoring such as card systems
- Khan Bank also took active role in a comprehensive campaign led by several government agencies and law enforcement authorities to curb crimes related to organization of online gambling activities.

37. Financial risk management (Continued)

37.9. Information security risk

The Bank organized an external audit for certification of ISO27001:2022 new updated standard of the Information Security Management System, and successfully certified and becoming the first organization in Mongolia to certify the new version which is ISO27001:2022.
The external audit covered Head offices, Data Centers, Ulaanbaatar and Rural Bank branches and no major non-conformity were found during the audit.

Also Having successfully obtained external audit of ISO27701:2019 Privacy information security standard, it has achieved great success as the first bank in the field of private banking sector in the global.
The external audit covered Head offices, Data Centers, Ulaanbaatar and Rural Bank branches and no major non-conformity were found during the audit.

External 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.

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 ISO27001:2022, 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 2023, Cyber Security Department performed Information security risk assessment on 13 departments and units of Head Office, as well as branches and 8 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. Also conducted Privacy data impact assessment conducted on 23 departments as per ISO27701:2019 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 97% and 20 third parties and detailed assessment was conducted in a consolidated manner based on the who is working with ITs 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 2023, Cyber security department successfully completed regular internal audit in accordance with Requirements of ISO27001:2022 & PCI DSS v3.2.1 and information security policies and procedures. The audit covered 36 departments of Head office, 209 branches and units of UB and Rural Retail Banks.

Information technology risk management

The Bank has an IT Risk Sub-Committee for effective IT risk management, and this committee identifies potential risks in the Bank's systems and IT operations and takes measures. In 2023, the risk assessment of newly introduced technologies was completed. In addition, a risk assessment methodology for IT projects was developed.

In addition, in order to ensure the availability of information technology services and the continuity of business operations, we regularly analyse problems and violations in operations and take timely measures if necessary. Risks identified through risk analysis and assessment are being managed in the IT risk dashboard along with related measures. In the reporting year, we focused on high-level risks related to information technology activities and worked to reduce the risk levels.

The Bank's information technology management and service system improvement and implementation activities are based on internationally recognized COBIT and ITIL systems. The IT audit examination based on the COBIT system is regularly conducted by an external audit organization, and this examination was conducted in 2023, and the average rating of competence was increased.

38. Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2023:

In thousands of MNT	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position
ASSETS			
Derivative financial instruments	89,313,290	(42,052,461)	47,260,829
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**89,313,290**	**(42,052,461)**	**47,260,829**
LIABILITIES			
Derivative financial instruments	47,751,013	(42,052,461)	5,698,552
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**47,751,013**	**(42,052,461)**	**5,698,552**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2022:

In thousands of MNT	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position
ASSETS			
Derivative financial instruments	151,120,104	(22,459,856)	128,660,248
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**151,120,104**	**(22,459,856)**	**128,660,248**
LIABILITIES			
Derivative financial instruments	27,356,753	(22,459,856)	4,896,897
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**27,356,753**	**(22,459,856)**	**4,896,897**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

The Bank has master netting arrangements and similar arrangements with counterparties, which are enforceable in case of default. In addition, applicable legislation and procedure allow an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the statement of financial position. The Bank also placed margin deposits as collateral for its outstanding derivative positions. The counterparty may offset the Bank's liabilities with the margin deposit in case of default.

39. 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.

39. 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 2023				31 December 2022			
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	77,090,484	-	-	**77,090,484**	186,302,687	-	-	**186,302,687**
- Senior RMBS, SFC at fair value	-	-	138,952,185	**138,952,185**	-	-	74,849,224	**74,849,224**
- Junior RMBS, SFC at fair value	-	-	200,790,808	**200,790,808**	-	-	174,218,961	**174,218,961**
Investments in equity securities								
- Corporate shares	4,970,548	-	-	**4,970,548**	4,267,181	-	-	**4,267,181**
Loans and advances to customers at FVTPL	-	183,423,240	-	**183,423,240**	-	378,606,395	-	**378,606,395**
Derivative financial instruments	-	47,260,829	-	**47,260,829**	-	128,660,248	-	**128,660,248**
Other financial assets	-	-	-	**-**	-	-	-	**-**
NON-FINANCIAL ASSETS								
Premises and equipment	-	-	293,504,464	**293,504,464**	-	-	289,810,778	**289,810,778**
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	**82,061,032**	**230,684,069**	**633,247,457**	**945,992,558**	**190,569,868**	**507,266,643**	**538,878,963**	**1,236,715,474**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
Derivative financial instruments	-	5,698,552	-	5,698,552	-	4,896,897	-	**4,896,897**
TOTAL LIABILITIES WITH RECURRING FAIR VALUE MEASUREMENTS	**-**	**5,698,552**	**-**	**5,698,552**	**-**	**4,896,897**	**-**	**4,896,897**

39. 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 2023 and 31 December 2022:

In thousands of MNT	2023	2022	Valuation technique	Inputs used
ASSETS AT FAIR VALUE FINANCIAL ASSETS				
Loans and advances to customers at FVTPL	183,423,240	378,606,395	Market value approach	Market price/Own price
Derivative financial instruments	47,260,829	128,660,248	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	5,698,552	4,896,897	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
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**224,985,517**	**502,369,746**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2023 (31 December 2022: 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 2023:

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, SFC at fair value	138,952,185	Market comparable	Market price/ Own price	100	1%	'+/-1,389,522
- Junior RMBS, SFC at fair value	200,790,808	Market comparable	Market price/ Own price	100	1%	'+/-2,007,908
NON-FINANCIAL ASSETS						
Premises and equipment	293,504,464	Depreciated replacement cost, market comparison	Market price per square metre with appropriate adjustments	2,895-7,940	10%	'+/-29,350,446
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**633,247,457**					

39. 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 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 companies	Market price/ Own price	100	1%	+/-748,492
- Junior RMBS, SFC at fair value	174,218,961	Market comparable companies	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**					

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 2023.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2023 is as follows:

In thousands of MNT	Senior RMBS	Junior RMBS, SFC	Premises and equipment
Fair value at 1 January 2023	74,849,224	174,218,961	289,810,778
Depreciation charged to profit or loss	-	-	(6,419,136)
Addition	254,638,300	38,660,100	-
Disposal	(191,140,700)	(13,811,300)	(56,275)
Transfer	-	-	10,768,995
Changes in accrued interest	605,361	1,723,047	-
Write-offs	-	-	(599,898)
Fair value at 31 December 2023	**138,952,185**	**200,790,808**	**293,504,464**

39. 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 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 to profit or loss	-	-	-
Addition	156,306,800	51,379,800	(5,954,516)
Disposal	(121,988,100)	-	(282,823)
Transfer	-	-	12,857,323
Changes in accrued interest	3,993,965	9,470,696	-
Write-offs	-	-	(8,322)
Fair value at 31 December 2022	**74,849,224**	**174,218,961**	**289,810,778**

(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 2023:

In thousands of MNT	Fair value	Valuation technique	Inputs used	Range of inputs (Weighted average)
Non-current assets held for sale	389,140	Depreciated replacement cost, market comparison	Market price per square metre with appropriate adjustments	282,670-1,496,770

The valuation technique and inputs used in the fair value measurement at 31 December 2022:

In thousands of MNT	Fair value	Valuation technique	Inputs used	Range of inputs (Weighted average)
Non-current assets held for sale	3,480,567	Depreciated replacement cost, market comparison	Market price per square metre with appropriate adjustments	7,179,388

(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.

39. 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 2023					31 December 2022				
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	235,566,035	4,722,159,716	-	4,957,725,751	4,957,727,074	212,128,736	4,161,283,465	-	4,373,412,201	4,373,412,201
Mandatory reserves with the Bank of Mongolia	-	1,090,955,256	-	1,090,955,256	1,090,955,256	-	969,104,827	-	969,104,827	969,104,827
Due from other banks	-	13,728,242	-	13,728,242	13,728,242	-	-	-	-	-
Investments in debt securities	1,063,175,375	7,315,571	122,330,472	1,192,821,418	1,185,802,247	910,520,709	16,206,688	71,111,287	997,838,684	1,038,725,692
Loans and advances to customers	-	-	8,580,253,201	8,580,253,201	8,833,551,615	-	-	6,721,694,050	6,721,694,050	7,032,457,614
Other financial assets	-	-	6,162,428	6,162,428	6,162,428	-	-	2,703,046	2,703,046	2,703,046
TOTAL	**1,298,741,410**	**5,834,158,785**	**8,708,746,101**	**15,841,646,296**	**16,087,926,862**	**1,122,649,445**	**5,146,594,980**	**6,795,508,383**	**13,064,752,808**	**13,416,403,380**

39. 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 2023					31 December 2022				
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	-	228,123,208	-	228,123,208	228,123,208	-	191,080,282	-	191,080,282	191,080,282
Repurchase agreements	-	60,182,082	-	60,182,082	60,182,082	-	367,267,329	-	367,267,329	367,267,329
Customer accounts	-	12,380,560,457	-	12,380,560,457	12,378,271,995	-	10,884,102,500	-	10,884,102,500	10,930,788,356
Other borrowed funds	-	2,092,992,641	-	2,092,992,641	2,121,721,870	-	1,743,845,236	-	1,743,845,236	1,776,932,717
Debt securities in issue	-	223,998,582	-	223,998,582	223,998,582	-	-	-	-	-
Lease liabilities		13,036,341	-	13,036,341	13,036,341	-	11,231,249	-	11,231,249	11,231,249
Other financial liabilities	-	-	161,641,613	161,641,613	161,641,613	-	-	135,162,720	135,162,720	135,162,720
TOTAL	**-**	**14,998,893,311**	**161,641,613**	**15,160,534,924**	**15,186,975,691**	**-**	**13,197,526,596**	**135,162,720**	**13,332,689,316**	**13,412,462,653**

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.

40. 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 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:

Main shareholder:	HS Holdings 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 main and other significant shareholders.

At 31 December 2023, the outstanding balances with related parties were as follows:

In thousands of MNT	**Main shareholder**	**Other significant shareholder**	**Key management personnel**	**Other related parties**
Loans and advances to customers (contractual interest rate: 2.4% – 24%)	-	-	3,201,749	65,358,478
Receivables	-	86,632	-	-
Long-term swaps (fair value)	-	-	-	282,675
Deposit accounts (contractual interest rate: 0.0% – 13.3%)	214,890	49,178,646	4,165,789	157,740,383
Other borrowed funds (contractual interest rate: 9.77%)	35,311,033	-	-	-
Share capital owned under ESPP	-	-	657,025	-

The income and expense items with related parties for 2023 were as follows:

In thousands of MNT	**Main shareholder**	**Other significant shareholder**	**Key management personnel**	**Other related parties**
Interest income	-	128,257	194,939	1,881,484
Interest expense	3,433,810	378,286	756,251	1,295,904
Operating expenses	-	625,537	13,749,840	57,216,637

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

At 31 December 2023, other rights and obligations with related parties were as follows:

In thousands of MNT	**Main shareholder**	**Other significant shareholder**	**Key management personnel**	**Other related parties**
Irrevocable undrawn credit lines	-	-	286,094	135,824
Approved limits	-	3,362,476	-	-
Guarantees issued	-	-	-	87,554
Letter of credits	-	-	-	6,163,706

40. Related party disclosures (Continued)

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

In thousands of MNT	Main shareholder	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: 7.41% – 8.01%)	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	Main shareholder	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	11,140,280	42,984,649

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

In thousands of MNT	Main shareholder	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

Key management compensation is presented below:

In thousands of MNT	2023	2022
Short-term benefits:		
- Salaries and other allowances	12,222,080	9,902,471
- Short-term bonuses	1,527,760	1,237,809
Total	**13,749,840**	**11,140,280**

41. 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 37 'Liquidity risk and funding management' for the Bank's contractual undiscounted repayment obligations for financial assets and liabilities.

At 31 December 2023

In thousands of MNT	**Less than 12 months**	**More than 12 months**	**Total**
Financial assets			
Cash and cash equivalents	4,957,727,074	–	4,957,727,074
Mandatory reserves with Bank of Mongolia	1,090,955,256	–	1,090,955,256
Due from banks	5,318,242	8,410,000	13,728,242
Investments in debt securities	721,294,868	881,340,856	1,602,635,724
Investments in equity securities	4,970,548	–	4,970,548
Derivative financial instruments	16,870,856	30,389,973	47,260,829
Loans and advances to customers at AC	4,627,054,654	4,206,496,961	8,833,551,615
Loans and advances to customers at FVTPL	7,746,056	175,677,184	183,423,240
Other financial assets	6,162,428	–	6,162,428
Total	**11,438,099,982**	**5,302,314,974**	**16,740,414,956**
Non-financial assets			
Investments in associates	283,589	–	283,589
Other assets	101,540,824	–	101,540,824
Intangible asset	–	43,529,294	43,529,294
Right of use assets	6,819,642	5,295,455	12,115,097
Property and equipment	–	452,369,173	452,369,173
Non-current assets classified as held for sale	389,140	-	389,140
Total	**109,033,195**	**501,193,922**	**610,227,117**
Total	**11,547,133,177**	**5,803,508,896**	**17,350,642,073**
Financial liabilities			
Due to other banks	228,123,208	–	228,123,208
Repurchase agreements	60,182,082	–	60,182,082
Customer accounts	9,954,284,612	2,423,987,383	12,378,271,995
Derivative financial instruments	5,698,552	–	5,698,552
Debt securities in issue	4,360,901	219,637,681	223,998,582
Other borrowed funds	485,255,214	1,636,466,656	2,121,721,870
Lease liabilities	7,434,039	5,602,302	13,036,341
Other liabilities	161,641,613	–	161,641,613
Total	**10,906,980,221**	**4,285,694,022**	**15,192,674,243**
Non-financial liabilities			
Current income tax liabilities	27,366,766	–	27,366,766
Deferred tax liabilities	–	8,855,501	8,855,501
Other liabilities	30,010,202	–	30,010,202
Total	**57,376,968**	**8,855,501**	**66,232,469**
Total	**10,964,357,189**	**4,294,549,523**	**15,258,906,712**
Net	**582,775,988**	**1,508,959,373**	**2,091,735,361**

41. Maturity analysis of assets and liabilities (Continued)

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
Investments in debt securities	720,472,369	753,624,195	1,474,096,564
Investments in equity securities	4,267,181	–	4,267,181
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
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
Intangible asset	–	46,286,024	46,286,024
Right of use assets	6,450,464	3,752,483	10,202,947
Property and equipment	–	455,493,746	455,493,746
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 agreements	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
Other borrowed funds	734,089,415	1,042,843,302	1,776,932,717
Lease liabilities	6,941,236	4,290,013	11,231,249
Other liabilities	135,162,720	–	135,162,720
Total	**9,922,674,948**	**3,494,684,602**	**13,417,359,550**
Non-financial liabilities			
Current income tax liabilities	3,957,990	–	3,957,990
Deferred tax liabilities	–	4,709,251	4,709,251
Other liabilities	11,320,489	–	11,320,489
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**

42. Capital adequacy

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

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios to be able to absorb negative shocks.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

Regulatory capital

BoM requires commercial banks to maintain a minimum core capital adequacy ratio of 9% (2022: 9%) and risk weighted capital ratio of at least 13% (2022: 13%) 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 2023 and at the end of 2022 and the capital adequacy ratios of the Bank as at 31 December were as follows:

	31 December 2023	31 December 2022
Core capital adequacy ratio	18.63%	16.69%
Risk-weighted capital ratio	18.63%	16.69%

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

In thousands of MNT	31 December 2023	31 December 2022
Ordinary shares	191,219,800	172,097,820
Share premium	164,257,808	-
Retained earnings	1,649,038,593	1,268,756,786
Total Tier I Capital	2,004,516,201	1,440,854,606
Total capital /capital base	**2,004,516,201**	**1,440,854,606**

43. Events after the reporting date

On 16 February 2024, the Bank declared a dividend in the amount of MNT 271,015,823 thousands to its shareholders in proportion to their ownership.

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.

44. 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.