MIK HOLDING JSC AND ITS SUBSIDIARIES

(Incorporated in Mongolia)

Audited consolidated financial statements
31 December 2023

MIK HOLDING JSC AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 31 DECEMBER 2023

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MIK HOLDING JSC AND ITS SUBSIDIARIES

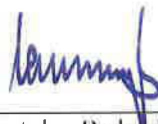
Corporate Information

Registered Office	: Chingeltei district, 1st khoroo, Sukhbaatar Square street 11 P.O.Box – 15160 – 215 Ulaanbaatar City, Mongolia
Board of Directors	: Mr. Khashchuluun Ch. (Acting Chairman) Mr. Davaajav T. Mr. Enkhjin A. Mr. Temuujin L. Mr. Uurtsaikhbaatar B. Mr. Sergelen N. Mr. Shijir E. Mr. Ganzorig U. Mr. Munkhbaatar M.
Corporate Secretary	: Ms. Saruul G.
Auditors	: Ernst & Young Mongolia Audit LLC Certified Public Accountants

STATEMENT BY CHAIRMAN AND EXECUTIVES

We, Khashchuluun Chuluundorj, being the Acting Chairman of the Board of Directors of MIK Holding JSC, Gantulga Badamkhatan, being the Chief Executive Officer, and Sansar Ganbaatar, being the Chief Operating Officer, primarily responsible for the consolidated financial statements of MIK Holding JSC and its subsidiaries (herein collectively referred to as the "Group"), do hereby state that, in our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB").

Khashchuluun Chuluundorj
Acting Chairman of the Board of Directors



Gantulga Badamkhatan
Chief Executive Officer

Sansar Ganbaatar
Chief Operating Officer

Ulaanbaatar, Mongolia
Date: 2024.03.10

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MIK Holding JSC

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Key audit matters	How our audit addressed the key audit matters
Impairment of financial assets	
The impairment of financial assets including cash and bank balances, debt instruments at amortised cost, mortgage pool receivables with recourse, loan receivables with recourse and purchased mortgage pool receivables is estimated by the management through the application of judgment and use of highly subjective assumptions. Due to the significance of financial assets including cash and bank balances, debt instruments at amortised cost, mortgage pool receivables with recourse, loan receivables with recourse and purchased mortgage pool receivables, representing about 92% of the Group's total assets as at 31 December 2023, and the related estimation uncertainty, this is considered a key audit matter. The impairment method is based on a forward-looking Expected Credit Loss ("ECL") approach. Elements of the ECL model require significant estimates and assumptions, including:	For assessment of impairment of cash and bank balances, debt instruments at amortised cost, mortgage pool receivables with recourse, loans receivables with recourse and purchased mortgage pool receivables as of 31 December 2023, our audit procedures included evaluating the methodologies, inputs and assumptions used by the Group in its ECL model in calculation of impairment of cash and bank balances, debt instruments at amortised cost, mortgage pool receivables with recourse, loan receivables with recourse and purchased mortgage pool receivables. In evaluating the methodologies, we obtained understanding of the Group's ECL model and management's basis for methodologies and assumptions applied and assessed the reasonableness of the model. We also considered the reasonableness of the assumptions applied and our evaluation included the assessment of basis for classification of exposures into the 3 stages, the methodology of PD, LGD and EAD determination, the forward-looking macroeconomic variables incorporated

Key Audit Matters (cont'd.)

Key audit matters	How our audit addressed the key audit matters
• Staging of financial assets; • Development of ECL models and the choice of inputs, including Probability of Default ("PD") and Loss Given Default ("LGD"); • Determination of the Exposure at Default ("EAD"); • Determination of associations between macroeconomic scenario, economic inputs, and the effect on inputs to the ECL calculation; • Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs of the ECL model; and Relevant disclosures of the accounting policy and critical accounting estimates and judgments are included in Notes 2.4 and 2.5, respectively. Other relevant disclosures of cash and bank balances, debt instruments at amortised cost, mortgage pool receivables with recourse, loan receivables with recourse, purchased mortgage pool receivables and related credit risk management are included in Notes 13, 14, 15, 16, 17 and 31.2 to the consolidated financial statements, respectively.	and the overall design of the model given the trends and patterns of the industry. In testing the appropriateness of the stage classifications, we tested the completeness of the ageing report by agreeing the amounts in the ageing report to the financial records. We also tested the accuracy of the ageing information based on a random sampling selection basis by verifying the information against other supporting documents. In addition, on a sampling basis, we tested credit ratings assigned to counter parties at initial recognition and as at the reporting date. We compared the key inputs to the ECL model to the Group's internally available historical data, externally available industry, financial and economic data. Our testing included the followings: • Tested the historical PD and LGD applied to a sample of loans against internal and external data; • Checked the macroeconomic parameters to external data sources where available; • Checked completeness of the EAD. We considered the consistency of judgment applied in the key inputs to the ECL model. We also assessed the adequacy of the related disclosure in the notes to the consolidated financial statements.

Other information included in the Annual Report

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

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Matter

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

ERNST & YOUNG MONGOLIA AUDIT LLC
Certified Public Accountants

Signed by

Mandakhbayar Dorjbat
Partner

Approved by

Shu Hing WONG
Partner

Ulaanbaatar, Mongolia
Date: 18 March 2024

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

	Notes	2023 MNT'000	2022 MNT'000
Interest and similar income	3	372,691,947	335,990,361
Interest expense	4	(289,467,241)	(255,129,538)
Net interest income		83,224,706	80,860,823
Fees and commission expense	5	(17,949,733)	(7,108,262)
Total operating income		65,274,973	73,752,561
Credit loss reversal/(expense)	6	624,992	(11,786,965)
Net gain/(loss) on financial assets at fair value through profit or loss	18	1,245,099	(2,629,610)
Net gain/(loss) on change in fair value of derivative financial instruments	19	(8,038,358)	115,877,409
Modification loss on purchased mortgage pool receivables	7	–	(110,852,344)
Modification gain on collateralised bonds	8	–	53,597,740
Net operating profit		59,106,706	117,958,791
Operating expenses	9	(17,188,289)	(16,755,433)
Other income/(expenses), net	10	2,764,812	(90,766,919)
Profit before tax		44,683,229	10,436,439
Income tax expense	11.1	(16,569,573)	(4,432,831)
Profit for the year, representing total comprehensive profit		28,113,656	6,003,608
Earnings per share (MNT)			
Basic and diluted earnings per share	12	1,843.89	393.76

The accompanying notes form an integral part of the financial statements.

	Notes	2023 MNT'000	2022 MNT'000
ASSETS			
Cash and bank balances	13	343,498,698	117,448,513
Debt instrument at amortised cost	14	131,545,865	179,880,304
Mortgage pool receivables with recourse	15	203,662,983	366,348,785
Loan receivables with recourse	16	23,905,581	80,906,907
Purchased mortgage pool receivables	17	4,082,796,161	3,432,162,229
Financial assets at fair value through profit or loss	18	137,673,182	137,419,577
Derivative financial instruments	19	152,847,243	160,885,601
Other assets	20	59,365,821	28,603,389
Property and equipment	21	34,800,079	36,617,422
Intangible assets	22	260,948	247,996
Income tax prepayments	11.2	190,620	1,318,076
Deferred tax asset	11.3	9,619,187	12,883,280
TOTAL ASSETS		5,180,166,368	4,554,722,079
LIABILITIES			
Other liabilities	23	18,241,664	9,333,568
Borrowed funds	24	9,577,148	36,156,514
Debt securities	25	760,736,859	819,963,304
Collateralised bonds	26	4,317,570,902	3,648,483,325
Income tax payables	11.2	1,976,169	56,256
Deferred tax liabilities	11.3	33,799,834	30,578,976
TOTAL LIABILITIES		5,141,902,576	4,544,571,943
EQUITY			
Ordinary shares	27	20,709,320	20,709,320
Share premium	27	52,225,115	52,225,115
Treasury shares	27	(62,143,136)	(62,143,136)
Reserve		27,472,493	(641,163)
TOTAL EQUITY		38,263,792	10,150,136
TOTAL LIABILITIES AND EQUITY		5,180,166,368	4,554,722,079

The accompanying notes form an integral part of the financial statements.

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Ordinary shares (Note 27)	Share premium (Note 27)	Treasury shares	Retained earnings/ (Accumulated losses)*	Total equity
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 1 January 2022	20,709,320	52,225,115	(62,143,136)	(6,644,771)	4,146,528
Total comprehensive income	–	–	–	6,003,608	6,003,608
At 31 December 2022 and 1 January 2023	20,709,320	52,225,115	(62,143,136)	(641,163)	10,150,136
Total comprehensive income	–	–	–	28,113,656	28,113,656
At 31 December 2023	20,709,320	52,225,115	(62,143,136)	27,472,493	38,263,792

* Included in retained earnings/(accumulated losses) as at 31 December 2023 are restricted retained earnings of MNT 185,117,400 thousand (31 December 2022: MNT 144,904,152 thousand) that are attributable to the Group's Special Purpose Companies ("SPCs"). The restriction relates to the issuance of Residential Mortgage-Backed Securities ("RMBS"), whereby the retained earnings of the SPCs that have issued RMBSs are restricted from distribution until their liquidation in accordance with their Articles of Charter and related Financial Regulatory Commission ("FRC") regulation.

The accompanying notes form an integral part of the financial statements.

MIK HOLDING JSC AND ITS SUBSIDIARIES

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Notes	2023 MNT'000	2022 MNT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		44,683,229	10,436,439
Adjustments to reconcile profit before tax to net cash flows:			
Interest on borrowed funds	4	2,945,303	3,969,179
Interest on debt securities	4	77,731,885	79,293,332
Credit loss expense/(reversal)	6	(624,992)	11,786,965
Modification loss on purchased mortgage pool receivables	7	–	110,852,344
Modification gain on collateralised bonds	8	–	(53,597,740)
Depreciation of property and equipment	9	1,897,820	1,911,566
Amortisation of intangible assets	9	317,045	186,155
Loss on disposal of purchased mortgage pool receivables	10	1,087,877	–
Discount on other receivables	10	1,122,508	3,705,187
Loss on disposal of foreclosed property, net	10	70,642	21,961
Write-off of property and equipment	10	283	760
Loss/(gain) on disposal of property and equipment	10	(4,094)	10,871
Gain on redemption of preference shares	10	(59,896)	–
Gain on disposal of debt instruments at amortised cost	10	(103,468)	–
Unrealised foreign exchange loss/(gain), net	10	(2,545,856)	98,727,150
Gain on repurchase of debt securities issued, net	10	(2,674,622)	(8,898,099)
Net loss/(gain) on financial assets at FVPL	18	(1,245,099)	2,629,610
Net loss/(gain) on derivative financial instruments	19	8,038,358	(115,877,409)
Operating profit before working capital changes		130,636,923	145,158,271
Changes in working capital:			
Due from banks – placement with original maturities of more than three months		–	19,050,389
Due from banks – placement with banks classified as Stage 3		214,313	585,627
Debt instruments at amortised cost		(4,063,237)	(8,698,171)
Mortgage pool receivables with recourse		161,692,496	30,481,072
Loan receivables with recourse		57,433,432	(35,738,729)
Purchased mortgage pool receivables		415,044,659	23,719,407
Other assets		(21,114,682)	(13,546,035)
Collateralised bonds		(397,763,623)	(100,628,224)
Other liabilities		8,913,592	(3,868,080)
Cash generated from operations		350,993,873	56,515,527
Interest paid classified as operating activities		(78,263,355)	(86,856,103)
Income tax paid	11.2	(1,673,997)	(2,657,970)
Income tax withheld by others	11.2	(5,852,051)	(1,395,249)
Net cash flows generated from/(used in) operating activities		265,204,470	(34,393,795)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in debt instruments at amortised cost	14	(5,000,000)	(89,118,062)
Repayment of debt instruments at amortised cost	14	45,500,000	4,000,000
Proceeds from disposal of financial assets at FVPL	18	1,250,000	5,450,000
Investment in financial assets at FVTPL	18	(198,610)	–
Purchase of property and equipment	21	(80,760)	(880,470)
Proceeds from disposal of property and equipment	21	4,094	49,525
Purchase of intangible assets	22	(329,997)	(232,318)
Net cash flows generated from/(used in) investing activities		41,144,727	(80,731,325)

The accompanying notes form an integral part of the financial statements.

	Notes	2023 MNT'000	2022 MNT'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of debt securities	25	1,091,075	–
Net proceeds from maturity of derivative financial instruments	19	–	21,630,709
Repayment of debt securities issued		–	(249,643,193)
Repurchase of debt securities issued		(54,302,323)	(64,726,956)
Repayment of borrowed funds		(25,445,382)	(5,385,965)
Net cash flows used in financing activities		(78,656,630)	(298,125,405)
Net increase/(decrease) in cash and cash equivalents		227,692,567	(413,250,525)
Effect of exchange rate changes on cash and cash equivalents		(1,460,844)	40,975
Cash and cash equivalents at 1 January		117,297,737	530,507,287
Cash and cash equivalents at 31 December	13	343,529,460	117,297,737
OPERATIONAL CASH FLOW FROM INTEREST			
Interest received		363,284,147	113,774,936
Interest paid		(288,053,216)	(112,622,474)
Non-cash transactions:			
Purchase of mortgage pool receivables (without recourse)		(1,066,852,161)	(661,315,209)
Issuance of collateralised bonds		1,066,851,200	661,313,700
Reclassification to other tax receivables, net		488,795	–

The reconciliation of liabilities arising from financing activities is shown below:

	Borrowed funds		Debt securities issued	
	2023 MNT'000	2022 MNT'000	2023 MNT'000	2022 MNT'000
As at 1 January	36,156,514	41,581,993	819,963,304	1,004,976,075
Cash items:				
New disbursement/additions	–	–	1,091,075	–
Repurchase of debt	–	–	(54,302,323)	(64,726,956)
Repayment classified as financing activity	(25,445,382)	(5,385,965)	–	(249,643,193)
	(25,445,382)	(5,385,965)	(53,211,248)	(314,370,149)
Non-cash items:				
Gain on repurchase of debt	–	–	(2,674,622)	(8,898,099)
Movement in accrued interest	(1,133,984)	(39,514)	3,547,817	(3,554,078)
Foreign exchange movement	–	–	(6,888,392)	141,809,555
	(1,133,984)	(39,514)	(6,015,197)	129,357,378
As at 31 December	9,577,148	36,156,514	760,736,859	819,963,304

The accompanying notes form an integral part of the financial statements.

1. Corporate and Group information

MIK Holding JSC (the "Company") was incorporated on 23 April 2008 under the Company Law of Mongolia. The Company remained dormant since incorporation and reorganized to become a holding company on 14 December 2015, together with its subsidiaries (collectively referred to as the "Group"). The Group comprises of MIK Holding JSC, Mongolian Mortgage Corporation HFC LLC ("MIK HFC"), MIK Asset Special Purpose Companies ("SPCs"), MIK Real Estate LLC and MIK Protego First LLC.

The Group's principal place of business and the registered address is Chingeltei district, 1st khoroo, Sukhbaatar Square street 11, Ulaanbaatar City, Mongolia.

The Group's objective is to develop a secondary market for mortgage loans in Mongolia by acquiring them from the commercial banks and thus providing the banking sector with additional liquidity, which can be used for further growth of mortgage lending. Its principal activities include purchases of mortgage loans issued by Mongolian commercial banks and the issuance of bonds, which are collateralised by the cash flows from the repayment of the mortgage pools.

The registered share capital of MNT 20,709,320 thousand (2022: MNT 20,709,320 thousand) consists of 20,709,320 (2022: 20,709,320) common shares at par value of MNT 1,000 (2022: MNT 1,000) each.

The Company is a joint stock company listed on the Mongolian Stock Exchange ("MSE"), incorporated and domiciled in Mongolia. The shareholders of the Group for the year ended 31 December 2023 are set out in Note 27.

The business activity of issuing asset backed securities became a licensed activity in Mongolia effective from 1 January 2011 in accordance with the Asset Backed Securities Law of Mongolia which was approved on 23 April 2010.

MIK HFC was incorporated on 4 September 2006 under the Company Law of Mongolia and is a wholly owned subsidiary of the Company. On 14 March 2012, MIK HFC was granted, by the FRC, a special license for the issuance of asset backed securities.

In 2013, the Government of Mongolia together with the Bank of Mongolia ("BoM") initiated a price stabilisation program which included a subsidy scheme for mortgage financing to create a stable environment for mortgage financing. Under the program, the commercial banks in Mongolia have been granted soft loans to fund the issuance of subsidised interest rate mortgage loans or refinance their existing loans with the subsidised interest rate mortgage financing.

On 14 June 2013, MIK HFC, the BoM and 14 commercial banks signed an agreement to participate in this government program and on 30 October 2013, the Group established its first SPC, MIK Asset One SPC LLC, a wholly owned subsidiary, to purchase the subsidised interest rate mortgage loans bearing an interest rate of 8% (from 1 October 2021: 6%) from the commercial banks and in return to issue RMBS, which are collateralised by the cash flows and collaterals of these mortgage pools.

As of 31 December 2023, the Group had established thirty-four SPCs (2022: thirty-two), of which thirty-four have purchased mortgage pools and issued RMBS (2022: thirty-one). All SPCs are incorporated in Mongolia and the principal activities of the SPCs are purchase of mortgage loans, issuance of RMBS, investment activities in securities issued by the government, central bank and legal entity and placement of term deposits with qualifying banks as governed by the Articles of the Charter of each SPC and relevant FRC regulations.

The consolidated financial statements of the Group were authorised for issue in accordance with the resolution of the Board of Directors on 18 March 2024.

2. Material accounting policies

2.1. Basis of preparation

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

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and financial assets designated at fair value through profit or loss ("FVPL") all of which have been measured at fair value. These consolidated financial statements are presented in Mongolian Togrog, which is denoted by the symbol MNT, and all values are rounded to the nearest thousands, except when otherwise indicated.

Presentation of financial statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 29.

2. Material accounting policies (cont'd.)

2.1. Basis of preparation (cont'd.)

Presentation of financial statements (cont'd.)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss and other comprehensive income ("OCI") unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2023. A subsidiary is an entity (including structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive incomes are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.2. New and amended standards and interpretations

The Group has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective in these consolidated financial statements.

Other amendments and interpretations apply for the first time in 2023, but do not have a material impact on the Group's consolidated financial statements. The other standards and amendments include the following:

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

2. Material accounting policies (cont'd.)

2.3. Standards issued but not yet effective

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

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

[1] *Effective for annual periods beginning on or after 1 January 2024*
[2] *Effective for annual periods beginning on or after 1 January 2025*
[3] *No mandatory effective date yet determined but available for adoption*

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

2.4. Summary of material accounting policies

Recognition of income and expense

The effective interest rate method

Interest income and interest expense are recorded using the effective interest rate ("EIR") method for all financial instruments measured at amortised cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured fair value through other comprehensive income ("FVOCI") is also recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the gross carrying amount of the financial asset or liability.

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

If expectations regarding the cash flows on the financial instruments are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the instrument in the statement of financial position with an increase or reduction in interest income and interest expense. The adjustment is subsequently amortised through Interest income or interest expense in the statement of profit or loss.

Interest income and interest expense

The Group calculates interest income or interest expense by applying the EIR to the gross carrying amount of financial instruments other than credit-impaired instruments.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in total operating income and net gains/(losses) on financial assets at fair value through profit or loss, respectively.

Fee and commission expense

Fee expense represents administration and fixed fee commission paid to the commercial banks. Fee expense is recognised when actual service has been provided.

Components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

2. Material accounting policies (cont'd.)

2.4. Summary of material accounting policies (cont'd.)

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

The Group's financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group'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 Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group 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 SPPI test

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

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

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

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

2. Material accounting policies (cont'd.)

2.4. Summary of material accounting policies (cont'd.)

Financial instruments – initial recognition and subsequent measurement (cont'd.)

i) Financial assets (cont'd.)

Debt instruments at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets are assessed in their substance over their legal form.

Financial assets at amortised cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes mortgage pool receivables with and without recourse, loan receivables with recourse, loan notes receivables and cash and bank balances.

Debt instruments at FVOCI

The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group doesn't have any debt instruments at FVOCI as of 31 December 2023.

Equity instruments at FVOCI

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group doesn't have any equity instruments at FVOCI as of 31 December 2023.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Group's financial assets at FVPL comprised investments in quoted and preference shares of entities. Interest earned on the investments are recognised as interest income in the statement of profit or loss.

2. Material accounting policies (cont'd.)

2.4. Summary of material accounting policies (cont'd.)

Financial instruments – initial recognition and subsequent measurement (cont'd.)

i) Financial assets (cont'd.)

Financial assets at FVPL (cont'd.)

Financial assets at FVPL also include a derivative relating to a cross-currency swap transaction entered into by the Group with a commercial bank.

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

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

The derivative is recorded at fair value and carried as assets when its fair value is positive and as liabilities when its fair value is negative. The Group chose not to apply hedge accounting on the cross-currency swap. Therefore, changes in the fair value of the derivative are recognised in gains/losses from financial derivatives in profit or loss. The Group's financial assets designated at FVPL are explained in Notes 18 and 19.

Derecognition

i) Derecognition due to substantial modification of terms and conditions

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

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

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. The Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial asset of, or greater than, ten percent.

(ii) Derecognition other than for substantial modification

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
  - the Group has transferred substantially all the risks and rewards of the asset, or
  - the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2. Material accounting policies (cont'd.)

2.4. Summary of material accounting policies (cont'd.)

Financial instruments – initial recognition and subsequent measurement (cont'd.)

i) Financial assets (cont'd.)

Impairment of financial assets

The Group records the allowance for expected credit losses for all financial assets not held at FVPL, together with financial guarantee contract.

Overview of ECL method. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Whether a financial instrument's credit risk has increased significantly since initial recognition is determined by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on that, the financial assets are grouped into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When financial assets are first recognised, an allowance is based on 12mECLs. Stage 1 financial assets also include facilities where the credit risk has improved, and the financial assets has been reclassified from Stage 2.
- Stage 2: When a financial asset has shown a significant increase in credit risk since origination, an allowance is based on the LTECLs. Stage 2 financial assets also include facilities, where the credit risk has improved, and the financial assets has been reclassified from Stage 3.
- Stage 3: Financial assets considered credit-impaired. An allowance is based on the LTECLs.

The Calculation of ECLs. The Group calculates ECLs based on two or more probability-weighted scenarios to measure the expected cash shortfalls. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group considers two multiple scenarios which are base case and a downside case for LGD.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.
The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Financial guarantee contracts. The Group's liability under the guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. The ECL related to financial guarantee contract is recognised within *Provisions*.

2. Material accounting policies (cont'd.)

2.4. Summary of material accounting policies (cont'd.)

Financial instruments – initial recognition and subsequent measurement (cont'd.)

i) Financial assets (cont'd.)

Impairment of financial assets (cont'd.)

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

- Percent change of G7 GDP rate
- Percent change of US Federal Funds rate
- Percent change of Housing Price Index
- Percent change of Unemployment rate

Write-offs. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the period.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, debt issued and other borrowed funds, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of debt issued and other borrowed funds and payables, net of directly attributable transaction costs.

The Group's financial liabilities include debt issued, collateralised bonds and other borrowed funds.

Subsequent measurement

Debt issued, collateralised bonds and other borrowed funds

This is the category most relevant to the Group. After recognition, debt issued, collateralised bonds and other borrowed funds are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account at discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as "interest expense" in the statement of profit or loss. This category generally applies to interest-bearing debt, collateralised bonds and other borrowed funds. For more information, refer to Notes 24, 25 and 26.

Derecognition

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

Modification of financial liabilities

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

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

2. Material accounting policies (cont'd.)

2.4. Summary of material accounting policies (cont'd.)

Financial instruments – initial recognition and subsequent measurement (cont'd.)

ii) Financial liabilities (cont'd.)

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

An analysis of fair values of financial instruments and further details as how they are measured are provided in Note 33.

Collateral repossessed

Repossessed assets are initially recognised at the lower of their fair values less costs to sell and the amortised cost of the related outstanding loans on the date of the repossession, and the related loans and advances together with the related impairment allowances are derecognised from the statement of financial position. Subsequently, repossessed assets are measured at the lower of cost and fair value less costs to sell and are included in 'Other assets'.

Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash on hand, current accounts, trust accounts, collection accounts and term deposits at banks, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents comprises cash on hand, non-restricted current accounts with banks and amounts due from banks or with an original maturity of three months or less.

Property and equipment

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

2. Material accounting policies (cont'd.)

2.4. Summary of material accounting policies (cont'd.)

Property and equipment (cont'd.)

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

Premises	25 years
Furniture and office equipment	10 years
Computers	2 years
Vehicles	10 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

Intangible assets

The Group's intangible assets include the value of computer software.

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset. Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful life of two years.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Employee benefits

(i) Short term benefits

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

2. Material accounting policies (cont'd.)

2.4. Summary of material accounting policies (cont'd.)

Employee benefits (cont'd.)

(ii) Defined contribution plans

As required by law, companies in Mongolia make contributions to the government pension scheme, social and health fund. Such contributions are recognised as an expense in profit or loss as incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI.

Equity

(i) Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. When shares are sold at a premium, the excess over par value is credited to the share premium.

(ii) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

(iii) Retained earnings

Retained earnings represent accumulated profits or losses, reduced by dividend declarations.

Retained earnings of the SPCs that have issued RMBSs are restricted from distribution until their liquidation in accordance with their Articles of Charter and FRC regulation.

2. Material accounting policies (cont'd.)

2.4. Summary of material accounting policies (cont'd.)

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

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

Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Transactions with related parties

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

A person or a close member of that person's family is related to a Group if that person:
- has control or joint control of the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group or of a parent of the Group.

An entity is related to a Group if any of the following conditions applies:

- The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- The entity is controlled or jointly controlled by a person.
- A person who has control or joint control of the Group has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

All material transactions and balances with the related parties are disclosed in the relevant notes to consolidated financial statements and the detail is presented in Note 30.

Foreign currency translation

The consolidated financial statements are presented in Mongolian Togrog ("MNT"), which is also the Company and the subsidiaries' functional currency. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising from settlement or translation of monetary items are taken to the consolidated profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

2. Material accounting policies (cont'd.)

2.5. Significant accounting judgments, estimates and assumptions

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as consumer price index and unemployment rate, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models;
- Identification and assessment of significant increases in credit risk and impairment based on employment status and sector of employment of borrowers.

The impairment loss on financial assets under IFRS 9 is recorded in the consolidated statement of profit or loss and disclosed in more detail in Notes 13.1, 14.1, 15.1, 16.1 and 17.1.

Valuation of derivative financial instruments

As disclosed in Note 19, the Group entered into a cross-currency swap agreement with a commercial bank in order to hedge the risk of variability of cash flows denominated in USD from the long-term senior notes issued on the international capital market (see Note 25). In determining the fair value of the derivative financial instruments, management applied the discounted cash flow method in their valuation.

3. Interest and similar income

	2023 MNT'000	2022 MNT'000
Interest income calculated using the effective interest method		
Purchased mortgage pool receivables (without recourse)	280,540,366	238,851,035
Mortgage pool receivables with recourse	26,694,799	46,234,902
Debt instruments at amortised cost	22,919,353	16,432,283
Loan receivables with recourse	11,402,722	13,975,016
Bank balances	11,067,433	4,699,934
	352,624,673	320,193,170
Other interest income		
Financial assets at FVPL	20,067,274	15,797,191
	372,691,947	335,990,361

Included in interest income from purchased mortgage pool receivables for the year ended 31 December 2022 is an amount of MNT 207.2 billion, representing accrued interest based on the effective interest rate of the modified financial assets in relation to the deferral program as further detailed in Note 7.

4. Interest expense

	2023 MNT'000	2022 MNT'000
Interest expense calculated using the effective interest method		
Collateralised bonds	201,701,721	166,055,406
Debt securities issued	77,731,885	79,293,332
Borrowed funds	2,945,303	3,969,179
	282,378,909	249,317,917
Other interest expense		
Derivative financial instruments (Note 19)	7,088,332	5,811,621
	289,467,241	255,129,538

Included in interest expense on collateralised bonds for the year ended 31 December 2022 is an amount of MNT 53.6 billion, representing accrued interest based on the effective interest rate of the modified financial liabilities as further detailed in Note 8.

5. Fee and commission expense

	2023 MNT'000	2022 MNT'000
Loan service fee	17,926,033	7,092,284
Bank service charge	23,700	15,978
	17,949,733	7,108,262

6. Credit loss expense/(reversal)

	2023 MNT'000	2022 MNT'000
Debt instruments at amortised cost (Note 14.1)	11,095,951	2,518,250
Purchased mortgage pool receivables (without recourse) (Note 17.1)	84,732	(4,070,483)
Cash and bank balances (Note 13.1)	(32,775)	(473,270)
Loan receivables with recourse (Note 16.1)	(432,106)	(328,098)
Mortgage pool receivables with recourse (Note 15.1)	(988,689)	362,166
Other asset (Note 20)	(10,352,105)	13,778,400
	(624,992)	11,786,965

7. Modification loss on purchased mortgage pool receivables

In April 2020, in order to relieve the impact of the Covid-19 pandemic on the Mongolian economy and the mortgage market, the Government and the BoM implemented a mortgage payment deferral program with respect to mortgage loans issued under the Affordable Housing Finance Program, in allowing applicants to defer the principal and interest payments. Initially the deferral program was approved for six months up to 1 October 2020, which was extended four times by the authorities until 31 December 2022.

Management assessed that the modification of the terms of loan contracts did not result in substantially different cash flows and hence the modification did not result in a derecognition of the mortgage pools. Based on the change in cash flows discounted at the original EIR, the Group recognised a modification loss on purchased mortgage pool receivables.

From 1 January 2023, in line with the Covid-19 law, the mortgage payment deferral program has ceased, and the Group has resumed collecting payments on all purchased mortgage pool receivables without recourse.

	2023 MNT'000	2022 MNT'000
Modification loss on purchased mortgage pool receivables	–	110,852,344

8. Modification gain on collateralised bonds

In conjunction with the mortgage principal and interest repayment deferral program as noted in Note 7, MIK Asset Ten SPC LLC to MIK Asset Thirty-One SPC LLC were given the option by the BoM and the MoF to defer the coupon payments due to them on the senior RMBS up to 31 December 2022 if they did not have the ability to pay, given that the entities have been making the coupon payments per schedule since the commencement of the deferral program and had started to exhaust their reserves. All other principal and coupon payments were to be made per schedule.

Similar to the contract modification on purchased mortgage pool receivables, management assessed that the deferral did not result in substantially different cash flows and hence the modification did not result in a derecognition of the collateralised bonds. Based on the change in cash flows discounted at the original EIR, the Group recognised a modification gain on collateralised bonds.

	2023 MNT'000	2022 MNT'000
Modification gain on collateralised bonds	–	53,597,740

9. Operating expenses

	2023 MNT'000	2022 MNT'000
Personnel expenses	9,246,300	9,170,961
Professional service fees	1,999,121	2,178,502
Depreciation expense (Note 21)	1,897,820	1,911,566
Business trip expense	1,260,139	654,418
Advertisement expense	1,058,995	1,431,260
Amortisation of intangible assets (Note 22)	317,045	186,155
Property tax expense	215,977	209,120
Utility expense	56,715	50,824
Other operating expenses	1,136,177	962,627
	17,188,289	16,755,433
* Personnel expenses		
Salaries, wages and bonus	7,945,858	7,630,659
Contribution to social and health fund	1,013,511	965,878
Staff training	240,281	237,585
Others	46,650	336,839
	9,246,300	9,170,961

10. Other income/(expenses), net

	2023 MNT'000	2022 MNT'000
Gain on repurchase of debt securities, net (Note 25)	2,674,622	8,898,099
Unrealised foreign exchange gain/(loss), net	2,545,856	(98,727,150)
Realised foreign exchange gain, net	326,718	7,574,647
Gain on maturity of debt instruments	103,468	–
Gain on redemption of preference shares (Note 18)	59,896	–
Gain/(loss) on disposal of property and equipment, net (Note 21)	4,094	(10,871)
Write-off of property and equipment (Note 21)	(283)	(760)
Loss on disposal of foreclosed property, net	(70,642)	(21,961)
Entertainment expense	(366,008)	(394,877)
Loss on disposal of purchased mortgage pool receivables (Note 17)	(1,087,877)	–
Discount on other receivables (Note 20)	(1,122,508)	(3,705,187)
Other expenses	(302,524)	(4,378,859)
	2,764,812	(90,766,919)

11. Income tax

11.1. Income tax expense

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

	2023 MNT'000	2022 MNT'000
Current tax		
Current income tax	10,084,622	4,331,719
Deferred tax		
Relating to origination of temporary differences (Note 11.3)	6,484,951	101,112
	16,569,573	4,432,831

The Group 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 rates for profits of the Group are 10% (2022: 10%) for the first MNT 6 billion (2022: MNT 6 billion) of taxable income, and 25% (2022: 25%) on the excess of taxable income over MNT 6 billion (2022: MNT 6 billion). The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings.

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 Group for the years ended 31 December are as follows:

	2023 MNT'000	2022 MNT'000
Profit before tax	44,683,229	10,436,439
Tax at statutory tax rate of 25% (2022: 25%)	11,170,807	2,609,110
Effect of expenses not deductible for tax purposes	1,537,392	9,193,508
Effect of income subject to lower tax rate	(2,894,250)	(5,600,569)
Effect of income not subject to tax	(1,069,702)	(3,707,333)
Deferred tax asset not recognised	795,317	1,387,901
Effect of withholding tax on future dividend distribution of SPCs (Note 11.3)	4,021,324	550,214
Deferred tax expense arisen from reversal of deferred tax asset	3,009,508	–
Others	(823)	–
Tax expense for the year	16,569,573	4,432,831

The Group has tax losses of MNT 318,503,780 thousand of tax losses pertaining to business operation of previous years, of which MNT 51,089,817 thousand, MNT 168,158,587 thousand and MNT 99,255,376 thousand of tax losses will expire in 2024, 2025 and 2026, respectively. The Group has not recognised deferred tax assets arising from tax losses as the Group is uncertain whether there would be sufficient taxable profit in the next four years available against which the tax losses carried forward can be utilised.

Deferred tax assets have not been recognised in respect of remaining tax losses as they may not be used to offset taxable profits based upon the likely timing and the level of future taxable profits. The annual amount of tax loss deductible from taxable income is limited to 50% (2022: 50%) of the taxable income in a given year.

11.2. Income tax prepayments/(payables)

	2023 MNT'000	2022 MNT'000
At 1 January	1,261,820	1,540,320
Reclassification to other tax receivables, net	(488,795)	–
Charge for the period (Note 11.1)	(10,084,622)	(4,331,719)
Income tax paid	1,673,997	2,657,970
Income tax withheld by others	5,852,051	1,395,249
At 31 December	(1,785,549)	1,261,820

	2023 MNT'000	2022 MNT'000
Income tax prepayment/(payable), net:		
- Income tax prepayment	190,620	1,318,076
- Income tax payable	(1,976,169)	(56,256)
	(1,785,549)	1,261,820

11. Income tax (cont'd.)

11.3. Deferred tax liabilities

	2023 MNT'000	2022 MNT'000
Deferred tax liabilities, net		
At 1 January	17,695,696	17,594,584
Recognised in profit or loss (Note 11.1)		
Future dividend distribution of the SPCs	4,021,324	550,214
Reversal of unused tax losses	3,009,508	–
Fair value change of derivative financial instruments	(803,836)	9,424,670
Unrealised foreign exchange movement, net	254,585	(9,873,772)
Fair value change of financial assets at FVPL	3,370	–
	6,484,951	101,112
At 31 December	24,180,647	17,695,696

	2023		2022	
	Deferred tax assets MNT'000	Deferred tax liabilities MNT'000	Deferred tax assets MNT'000	Deferred tax liabilities MNT'000
Future dividend distribution of the SPCs	–	18,511,739	–	14,490,415
Fair value change of derivative financial instruments	–	15,284,725	–	16,088,561
Fair value change of financial assets at FVPL	–	3,370	–	–
Unrealised foreign exchange loss, net	9,619,187	–	9,873,772	–
Tax losses carried forward	–	–	3,009,508	–
	9,619,187	33,799,834	12,883,280	30,578,976
		24,180,647		17,695,696

12. Earnings per share

The following table shows the income and number of shares used in the basic and diluted earnings per share calculations:

	2023 MNT'000	2022 MNT'000
Profit for the year and total comprehensive income for the year (net of tax) attributable to equity holder of the Parent	28,113,656	6,003,608
Weighted-average number of ordinary shares for basic and diluted earnings per share* (Note 27)	15,246,891	15,246,891
Earnings per share		
	MNT	MNT
Equity holders of the Parent for the year:		
Basic and diluted earnings per share	1,843.89	393.76

* The weighted-average number of shares takes into account treasury shares held by the Group.

13. Cash and bank balances

	2023 MNT'000	2022 MNT'000
Cash on hand	89,815	22,678
Current accounts with banks	153,321,275	24,992,307
Term deposits with banks	153,211,701	68,237,942
Trust accounts with banks	23,249,873	13,509,822
Collection accounts with banks	14,097,003	11,189,508
Gross carrying amount	343,969,667	117,952,257
Allowance for impairment losses	(470,969)	(503,744)
Net carrying amount	343,498,698	117,448,513

All bank accounts are placed in commercial banks operating in Mongolia, and most of these commercial banks are shareholder of the Group. The trust accounts with banks represent current accounts where the collections made by commercial banks on behalf of the Group on the purchased mortgage pool receivables are accumulated and are deposited into the current accounts on monthly basis. The collection account is used for repayment of the RMBS. The carrying amount of cash and cash equivalents approximates fair value. The Group earns interest income at a rate of 3.6% to 11.5% (2022: 3.6% to 9.7%) per annum on term deposits.

Additional cash flow information

	2023 MNT'000	2022 MNT'000
Cash and bank balances	343,969,667	117,952,257
Less: Cash and bank balances classified as Stage 3	(440,207)	(654,520)
Total cash and cash equivalents for the consolidated statement of cash flows	343,529,460	117,297,737

13.1. Impairment allowance for cash and bank balances

	2023 MNT'000	2022 MNT'000
At 1 January	503,744	977,014
Credit loss reversal (Note 6)	(32,775)	(473,270)
At 31 December	470,969	503,744

Details of the Group's stage classification and methodology for calculating ECL are explained in Note 31.2.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the the Group's internal grading system and policies are set out in Note 31.2:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2023				
Internal rating grade				
B- to B+ rated	304,905,362	–	–	304,905,362
C to CCC+ rated	38,534,283	–	–	38,534,283
D rated	–	–	440,207	440,207
	343,439,645	–	440,207	343,879,852
31 December 2022				
B- to B+ rated	117,143,112	–	–	117,143,112
C to CCC+ rated	131,947	–	–	131,947
D rated	–	–	654,520	654,520
	117,275,059	–	654,520	117,929,579

13. Cash and bank balances (cont'd.)

13.1. Impairment allowance for cash and bank balances (cont'd.)

The table below shows changes in the gross carrying amount and the corresponding ECLs:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2023				
Gross carrying amount as at 1 January	117,275,059	–	654,520	117,929,579
New assets originated or purchased	4,383,583,416	–	–	4,383,583,416
Assets derecognised or repaid	(4,155,957,986)	–	(214,313)	(4,156,172,299)
Foreign exchange movement	(1,460,844)	–	–	(1,460,844)
At 31 December	343,439,645	–	440,207	343,879,852
ECL allowance as at 1 January	75,245	–	428,499	503,744
New assets originated or purchased	2,343,177	–	–	2,343,177
Assets derecognised or repaid	(2,250,318)	–	(140,244)	(2,390,562)
Impact on ECL on transfers between stages and changes to inputs	(55,463)	–	70,073	14,610
At 31 December	112,641	–	358,328	470,969
31 December 2022				
Gross carrying amount as at 1 January	549,272,570	–	1,240,147	550,512,717
New assets originated or purchased	2,531,206,379	–	–	2,531,206,379
Assets derecognised or repaid	(2,976,031,601)	–	(519,436)	(2,976,551,037)
Transfer to Stage 1	154,879		(154,879)	–
Transfer to Stage 3	(88,688)	–	88,688	–
Foreign exchange movement	12,761,520	–	–	12,761,520
At 31 December	117,275,059	–	654,520	117,929,579
ECL allowance as at 1 January	179,233	–	797,781	977,014
New assets originated or purchased	1,033,704	–	–	1,033,704
Assets derecognised or repaid	(1,160,665)	–	(334,153)	(1,494,818)
Transfer to Stage 1	99,633		(99,633)	–
Transfer to Stage 3	(2)	–	2	–
Impact on ECL on transfers between stages and changes to inputs	(76,658)	–	64,502	(12,156)
At 31 December	75,245	–	428,499	503,744

14. Debt instruments at amortised cost

	2023 MNT'000	2022 MNT'000
Loan notes receivables	154,436,254	191,674,742
Allowance for impairment losses	(22,890,389)	(11,794,438)
Net debt instruments at amortised cost	131,545,865	179,880,304

Loan notes receivables

Included in the debt instruments at amortised cost are loan notes from Bodi International LLC (“Bodi”), QSC LLC and callable bonds from Globull Investment and Development PTE Ltd (“Globull”) amounting to MNT 10.1 billion, MNT 44.2 billion and MNT 90.4 billion, respectively. (2022: MNT 178.2 billion). The notes are repayable from January 2024 to February 2025 (see Note 30).

During the year, the Group purchased loan notes from certain entities for a total consideration of MNT 5.0 billion and received MNT 45.5 billion from the principal repayment of the debt instruments at amortised cost.

14.1. Impairment allowance for debt instruments at amortised cost

	2023 MNT'000	2022 MNT'000
At 1 January	11,794,438	9,276,188
Credit loss expense (Note 6)	11,095,951	2,518,250
At 31 December	22,890,389	11,794,438

The table below shows changes in the gross carrying amount and the corresponding ECLs. Details of the Group’s stage classification and methodology for calculating ECL are explained in Note 31.2.

	Stage 1 MNT’000	Stage 2 MNT’000	Stage 3 MNT’000	Total MNT’000
31 December 2023				
Gross carrying amount as at 1 January	146,368,040	45,306,702	–	191,674,742
New assets originated or purchased	27,287,221	–	–	27,287,221
Assets derecognised or repaid	(64,525,709)	–	–	(64,525,709)
Transfer to Stage 2	(5,553,193)	5,553,193	–	–
Transfer to Stage 3	(1,020,000)	(6,718,516)	7,738,516	–
At 31 December	102,556,359	44,141,379	7,738,516	154,436,254
ECL allowance as at 1 January	1,793,592	10,000,846	–	11,794,438
New assets originated or purchased	1,453,675	–	–	1,453,675
Assets derecognised or repaid	(695,814)	–	–	(695,814)
Transfer to Stage 2	(1,182,219)	1,182,219	–	–
Transfer to Stage 3	(13,484)	(850,869)	864,353	–
Impact on ECL on transfers between stages and changes to inputs	(332,521)	8,546,818	2,123,793	10,338,090
At 31 December	1,023,229	18,879,014	2,988,146	22,890,389

14. Debt instruments at amortised cost (cont'd.)

14.1. Impairment allowance for debt instruments at amortised cost (cont'd.)

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2022				
Gross carrying amount as at 1 January	54,524,439	35,518,728	–	90,043,167
New assets originated or purchased	111,983,290	–	–	111,983,290
Assets derecognised or repaid	(10,351,715)	–	–	(10,351,715)
Transfer to Stage 2	(9,787,974)	9,787,974	–	–
At 31 December	146,368,040	45,306,702	–	191,674,742
ECL allowance as at 1 January	1,198,656	8,077,532	–	9,276,188
New assets originated or purchased	4,045,221	–	–	4,045,221
Assets derecognised or repaid	(265,155)	–	–	(265,155)
Transfer to Stage 2	(2,276,999)	1,015,183	–	(1,261,816)
Impact on ECL on transfers between stages and changes to inputs	(908,131)	908,131	–	–
At 31 December	1,793,592	10,000,846	–	11,794,438

The table below shows the credit quality and the maximum exposure to risk based on the Group's internal credit rating system and year-end stage classification. The amounts are represented gross of impairment allowances. Details of the Group's internal rating system are explained in Note 31.2.

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2023				
Internal rating grade				
B- to B+ rated	102,556,359	–	–	102,556,359
C to CCC+ rated	–	44,141,379	7,738,516	51,879,895
	102,556,359	44,141,379	7,738,516	154,436,254
31 December 2022				
B- to B+ rated	146,368,040	–	–	146,368,040
C to CCC+ rated	–	45,306,702	–	45,306,702
	146,368,040	45,306,702	–	191,674,742

15. Mortgage pool receivables with recourse

The Group acquires mortgage pool receivables with recourse from commercial banks, most of whom are shareholders of the Group. The Group has the right to request from the respective commercial bank, when any individual mortgage loan is overdue more than 90 days, either to replace the defaulted loan with another performing mortgage loan with similar terms or to pay immediately in cash an amount equal to the carrying amount of the defaulted loan plus accumulated interest. Thus, mortgage pool receivables with recourse represent, in substance, loans issued to commercial banks in Mongolia, which are collateralised by related mortgage loan receivables of those commercial banks, as well as by the related residential properties that are used as collateral, as additional guarantee.

As of 31 December 2023, most of the outstanding portfolios are scheduled to mature prior to the end of January 2024 to ensure sufficient liquidity to settle debt securities maturing in February 2024. Subsequently, in 2024, the Group has agreed to extend the maturity of some of the portfolios due to the issuance of new debt securities maturing in January 2027 (see Note 35).

	2023 MNT'000	2022 MNT'000
Commercial mortgage pool receivables	199,634,459	258,876,772
Residential mortgage pool receivables	5,379,816	109,811,994
Gross mortgage pool receivables with recourse	205,014,275	368,688,766
Allowance for impairment losses	(1,351,292)	(2,339,981)
Net mortgage pool receivables with recourse	203,662,983	366,348,785

15. Mortgage pool receivables with recourse (cont'd.)

15.1. Impairment allowance for mortgage pool receivables with recourse

	2023 MNT'000	2022 MNT'000
At 1 January	2,339,981	1,977,815
Credit loss expense/(reversal) (Note 6)	(988,689)	362,166
At 31 December	1,351,292	2,339,981

Details of calculation and policies about ECL allowances are explained in Note 31.2.

The table below shows the credit quality and the maximum exposure to risk based on the Group's internal credit rating system and year-end stage classification. The amounts are represented gross of impairment allowances. Details of the Group's internal rating system are explained in Note 31.2.

	2023 Total Stage 1 MNT'000	2022 Total Stage 1 MNT'000
Internal rating grade		
B- to B+ rated	205,014,275	368,688,766

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to mortgage pool receivables with recourse is as follows:

	2023 Stage 1 MNT'000	2022 Stage 1 MNT'000
Gross carrying amount as at 1 January	368,688,766	366,319,391
New assets originated or purchased	41,893,803	57,682,610
Assets derecognised or repaid	(205,568,294)	(55,313,235)
At 31 December	205,014,275	368,688,766
ECL allowance as at 1 January	2,339,981	1,977,815
New assets originated or purchased	265,890	311,437
Assets derecognised or repaid	(1,304,694)	(298,645)
Impact on ECL on changes to inputs	50,115	349,374
At 31 December	1,351,292	2,339,981

16. Loan receivables with recourse

	2023 MNT'000	2022 MNT'000
Gross loan receivables with recourse	23,915,332	81,348,764
Allowance for impairment losses	(9,751)	(441,857)
Net loan receivables with recourse	23,905,581	80,906,907

Loan receivables with recourse represent consumer loan receivables from individual borrowers and legal entities, purchased from financial institutions.

The Group has the right to request from the respective originator, when any individual loan is overdue more than 90 days, either to replace the defaulted loan with another performing consumer loan with similar terms or to pay immediately in cash an amount equal to the carrying amount of the defaulted loan plus accumulated interest. Thus, similar to mortgage pool receivables with recourse, loan receivables with recourse represent, in substance, loans issued to financial institutions in Mongolia, which are collateralised by the loan receivables of those institutions, as well as by the related assets that are used as collateral, as additional guarantee.

As of 31 December 2023, all outstanding portfolios are scheduled to mature prior to the end of January 2024 to ensure sufficient liquidity to settle debt securities maturing in February 2024. Subsequently, in 2024, the Group has agreed to extend the maturity of some of the portfolios due to the issuance of new debt securities maturing in January 2027 (see Note 35).

16. Loan receivables with recourse (cont'd.)

16.1. Impairment allowance for loan receivables with recourse

	2023 MNT'000	2022 MNT'000
At 1 January	441,857	769,955
Credit loss reversal (Note 6)	(432,106)	(328,098)
At 31 December	9,751	441,857

Details of calculation and policies about ECL allowances are explained in Note 31.2.

The table below shows the credit quality and the maximum exposure to risk based on the Group's internal credit rating system and year-end stage classification. The amounts are represented gross of impairment allowances. Details of the Group's internal rating system are explained in Note 31.2.

	2023 Total Stage 1 MNT'000	2022 Total Stage 1 MNT'000
Internal rating grade		
B- to B+ rated	23,915,332	81,348,764

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loan pool receivables with recourse is as follows:

	2023 Stage 1 MNT'000	2022 Stage 1 MNT'000
Gross carrying amount as at 1 January	81,348,764	45,610,035
New assets originated or purchased	11,402,722	112,135,115
Assets derecognised or repaid	(68,836,154)	(76,396,386)
At 31 December	23,915,332	81,348,764
ECL allowance as at 1 January	441,857	769,955
New assets originated or purchased	61,935	1,892,982
Assets derecognised or repaid	(373,893)	(1,289,667)
Impact on ECL on changes to inputs	(120,148)	(931,413)
At 31 December	9,751	441,857

17. Purchased mortgage pool receivables

	2023 MNT'000	2022 MNT'000
Gross purchased mortgage pool receivables	4,090,351,012	3,439,632,348
Allowance for impairment losses	(7,554,851)	(7,470,119)
Net purchased mortgage pool receivables	4,082,796,161	3,432,162,229

Purchased mortgage pool receivables represent mortgage loan receivables due from individual borrowers, purchased from Mongolian commercial banks, most of whom are shareholders of the Group. All significant risks and rewards related to these mortgage loans, including the rights to the related collateral, are fully transferred to the Group at acquisition of the mortgage pools.

During 2023, the Group sold 79 mortgage loans amounting to MNT 3.63 billion to Bogd Bank JSC ("Bogd"), for cash consideration of MNT 2.54 billion, resulting in a loss of MNT 1.09 billion. The loss on this disposal was recognised as part of other expenses in the statement of profit or loss (see Note 10). Upon disposal, all significant risks and rewards related to purchased mortgage pool receivables without recourse, including the rights to the related collateral, are fully transferred to Bogd.

The Group performs a credit quality analysis of the individual mortgage loans on each mortgage pool acquired. For credit risk policies and disclosures, please refer to Note 31.2.

17. Purchased mortgage pool receivables (cont'd.)

17.1. Impairment allowance for purchased mortgage pool receivables

	2023 MNT'000	2022 MNT'000
At 1 January	7,470,119	11,540,602
Credit loss expense/(reversal) (Note 6)	84,732	(4,070,483)
At 31 December	7,554,851	7,470,119

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to purchased mortgage pool receivables is as follows:

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2023				
Gross carrying amount as at 1 January	3,330,521,074	87,593,152	21,518,122	3,439,632,348
New assets originated or purchased	1,346,943,471	–	–	1,346,943,471
Assets derecognised or repaid	(683,610,630)	(9,107,981)	(3,506,196)	(696,224,807)
Transfer to Stage 1	80,843,734	(73,943,711)	(6,900,023)	–
Transfer to Stage 2	(53,227,168)	53,719,259	(492,091)	–
Transfer to Stage 3	(22,132,655)	(1,748,606)	23,881,261	–
At 31 December	3,999,337,826	56,512,113	34,501,073	4,090,351,012
ECL allowance as at 1 January	4,102,593	2,206,043	1,161,483	7,470,119
New assets originated or purchased	1,770,098	–	–	1,770,098
Assets derecognised or repaid	(842,517)	(200,406)	(189,286)	(1,232,209)
Transfer to Stage 1	2,411,298	(1,989,266)	(422,032)	–
Transfer to Stage 2	(65,276)	94,616	(29,340)	–
Transfer to Stage 3	(26,493)	(35,571)	62,064	–
Impact on ECL on transfers between stages and changes to inputs	(3,455,460)	1,187,169	1,815,134	(453,157)
At 31 December	3,894,243	1,262,585	2,398,023	7,554,851
31 December 2022				
Gross carrying amount as at 1 January	2,695,434,222	164,957,824	52,498,353	2,912,890,399
New assets originated or purchased	691,023,358	–	–	691,023,358
Assets derecognised or repaid	(242,271,689)	(13,048,041)	(5,123,685)	(260,443,415)
Effect of modification	89,975,416	4,800,115	1,386,475	96,162,006
Transfer to Stage 1	178,109,573	(149,094,635)	(29,014,938)	–
Transfer to Stage 2	(78,748,893)	81,530,137	(2,781,244)	–
Transfer to Stage 3	(3,000,913)	(1,552,248)	4,553,161	–
At 31 December	3,330,521,074	87,593,152	21,518,122	3,439,632,348
ECL allowance as at 1 January	2,288,823	6,696,926	2,554,853	11,540,602
New assets originated or purchased	507,479	–	–	507,479
Assets derecognised or repaid	(183,999)	(447,747)	(207,227)	(838,973)
Transfer to stage 1	7,493,230	(6,062,324)	(1,430,906)	–
Transfer to stage 2	(24,095)	160,447	(136,352)	–
Transfer to stage 3	(7,078)	(55,056)	62,134	–
Impact on ECL on transfers between stages and changes to inputs	(5,971,767)	1,913,797	318,981	(3,738,989)
At 31 December	4,102,593	2,206,043	1,161,483	7,470,119

17. Purchased mortgage pool receivables (cont'd.)

17.1. Impairment allowance for purchased mortgage pool receivables (cont'd.)

The table below shows the credit quality and the maximum exposure to risk based on the Group's internal credit rating system and year-end stage classification. The amounts are represented gross of impairment allowances. Details of the Group's internal rating system are explained in Note 31.2.

	Stage 1 MNT'000	Stage 2 MNT'000	Stage 3 MNT'000	Total MNT'000
31 December 2023				
Internal rating grade				
Performing mortgages	3,973,036,229	50,977,989	–	4,024,014,218
Mortgages in arrears	26,301,597	5,534,124	–	31,835,721
Non-performing mortgages				
Substandard mortgages	–	–	11,581,570	11,581,570
Doubtful mortgages	–	–	13,185,497	13,185,497
Bad mortgages	–	–	9,734,006	9,734,006
	–	–	34,501,073	34,501,073
Total	3,999,337,826	56,512,113	34,501,073	4,090,351,012
31 December 2022				
Internal rating grade				
Performing mortgages	3,330,521,074	85,124,876	–	3,415,645,950
Mortgages in arrears	–	2,468,276	–	2,468,276
Non-performing mortgages				
Substandard mortgages	–	–	2,358,402	2,358,402
Doubtful mortgages	–	–	1,946,638	1,946,638
Bad mortgages	–	–	17,213,082	17,213,082
	–	–	21,518,122	21,518,122
Total	3,330,521,074	87,593,152	21,518,122	3,439,632,348

18. Financial assets at fair value through profit or loss

	2023 MNT'000	2022 MNT'000
Fair value as at 1 January	137,419,577	145,499,187
Purchased	198,610	–
Redeemed	(1,250,000)	(5,450,000)
Gain on redemption of preference shares (Note 10)	59,896	–
Net gain/(loss) from change in fair value through profit or loss	1,245,099	(2,629,610)
Fair value as at 31 December	137,673,182	137,419,577

Investment in preference shares

Included in the financial assets at fair value through profit or loss are 30,000 preference shares of TDB Capital LLC ("TDBC"), a shareholder of Trade and Development Bank of Mongolia ("TDB"), with a par value of MNT 5 million per share purchased for a total consideration of MNT 150 billion. The preference shares have an annual dividend rate of the BoM policy rate plus 1 percent.

On 12 January 2023, TDBC repurchased 250 preference shares for MNT 1.25 billion, resulting in a gain of MNT 59,896 thousand (see Notes 10 and 30).

Subsequently, in February 2024, it was agreed that TDBC would repurchase all preference shares, along with the accrued dividend, in three instalments with principal amount of MNT 28.3 billion in December 2024, MNT 45 billion in December 2025 and MNT 70 billion in December 2026.

As at 31 December 2023, the outstanding units of the preference shares are 28,660 (2022: 28,910).

Management classified the investment in preference shares as a financial asset at FVPL.

18. Financial assets at fair value through profit or loss (cont'd.)

Investment in quoted shares

On 6 January 2023, the Group purchased quoted shares of Mongolian Stock Exchange ("MSE"), with a par value of MNT 100 per share for a total consideration of MNT 198,610 thousand.

For the fair value disclosure of financial assets at FVPL, please refer to Note 33.

19. Derivative financial instruments

On 14 January 2022, the Group extended its cross-currency swap agreement entered with a commercial bank, which was due to mature in February 2022, to manage the risk of variability of cash flows denominated in USD from its Senior Notes issued on the international market in February 2021 (see Notes 25 and 30). The agreement has a notional amount of USD 196 million or MNT 515,730 million and has a maturity of two years, with interest payable quarterly beginning 14 April 2022 to 14 January 2024 on a net basis.

The table below shows the fair value of derivative financial instruments recorded as assets 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.

For the fair value disclosure of derivative financial instruments, please refer to Note 33.

	Notional amount	Fair value of assets	
		2023	2022
	MNT'000	MNT'000	MNT'000
Derivatives			
Cross currency swaps	515,730,880	152,847,243	160,885,601

	2023 MNT'000	2022 MNT'000
Fair value as at 1 January	160,885,601	66,638,901
Net gain/(loss) on change in fair value of derivative financial instruments	(8,038,358)	115,877,409
Realized gain on derivative financial instruments	–	(21,630,709)
Fair value as at 31 December	152,847,243	160,885,601

Interest earned or incurred on derivative financial instruments is accrued in interest income or interest expense (disclosed at net, see Note 4), respectively, and received or paid at the net amount between the contractual rates every quarter from 14 April 2022 to 14 January 2024. The reconciliation of interest payable or interest receivable is as shown below:

	2023 MNT'000	2022 MNT'000
Interest payable/(receivable) at 1 January	(3,024,561)	2,148,019
Net interest accrued (Note 4)	7,088,332	5,811,621
Net interest paid	(2,927,980)	(10,984,201)
Interest payable/(receivable) at 31 December	1,135,791	(3,024,561)

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

	2023 MNT'000	2022 MNT'000
Fair value of swap:		
- USD receivable on settlement (+)	668,821,549	680,869,463
- MNT payable on settlement (-)	(515,974,306)	(519,983,862)
Net fair value of swap	152,847,243	160,885,601

20. Other assets

	2023 MNT'000	2022 MNT'000
Financial assets		
Interest receivable on cross-currency swap (Note 19)	–	3,024,561
Other receivables	57,102,169	39,509,756
Less: Allowance for other receivables	(6,382,117)	(19,038,009)
	50,720,052	23,496,308
Non-financial assets		
Prepayments	5,104,381	1,143,187
Foreclosed properties	–	200,014
Consumables and office supplies	361,610	371,439
Value-added tax receivables	3,045,601	3,244,665
Other assets	134,177	147,776
	8,645,769	5,107,081
	59,365,821	28,603,389

Included in other receivables as at 31 December 2023 is accrued interest on preference shares held in TDB Capital LLC of MNT 45,490,879 thousand (2022: MNT 25,650,694 thousand) (see Note 30); these long-term receivables have been discounted to net present value for the effects of the time value of money resulting in a discount on other receivables of MNT 1,122,508 thousand (2022: MNT 3,705,187 thousand) (see Note 10).

As at 31 December 2022, included in other receivables was MNT 13,778,400 thousand due from a third party, where the management had fully provided the allowance for losses, based on the assessment of the recoverability of this receivable. During 2023, the Group had disposed of the receivables for a cash consideration of MNT 10,352,105, fully transferring the risks and rewards to a third party and fully reversed the loss allowance recognised in the prior period (see Note 6).

Included in prepayments as at 31 December 2023 were transaction costs of MNT 3.68 billion, of which MNT 2.31 billion relate to the debt securities issued on the international market in January 2024 and MNT 1.37 billion to another potential fund-raising activity (see Note 35).

21. Property and equipment

	Premises MNT'000	Furniture and equipment MNT'000	Computers MNT'000	Vehicles MNT'000	Total MNT'000
At 31 December 2023					
At cost					
At 1 January 2023	37,347,699	1,054,244	1,101,550	1,129,500	40,632,993
Additions	–	19,977	60,783	–	80,760
Write-off (Note 10)	–	(308)	(41,002)	–	(41,310)
Disposal	–	–	(9,241)	–	(9,241)
At 31 December 2023	37,347,699	1,073,913	1,112,090	1,129,500	40,663,202
Accumulated depreciation					
At 1 January 2023	2,510,771	214,255	881,581	408,964	4,015,571
Charge for the year (Note 9)	1,493,908	104,762	186,200	112,950	1,897,820
Write-off (Note 10)	–	(194)	(40,833)	–	(41,027)
Disposal	–	–	(9,241)	–	(9,241)
At 31 December 2023	4,004,679	318,823	1,017,707	521,914	5,863,123
Net carrying amount	33,343,020	755,090	94,383	607,586	34,800,079

21. Property and equipment (cont'd.)

	Premises	Furniture and equipment	Computers	Vehicles	Total
	MNT'000	MNT'000	MNT'000	MNT'000	MNT'000
At 31 December 2022					
At cost					
At 1 January 2022	37,347,699	688,074	947,542	926,500	39,909,815
Additions	–	374,394	228,076	278,000	880,470
Write-off (Note 10)	–	(3,200)	(48,882)	–	(52,082)
Disposal	–	(5,024)	(25,186)	(75,000)	(105,210)
Reclassification	–	–	–	–	–
At 31 December 2022	37,347,699	1,054,244	1,101,550	1,129,500	40,632,993
Accumulated depreciation					
At 1 January 2022	1,016,863	128,074	738,580	316,624	2,200,141
Charge for the year (Note 9)	1,493,908	91,802	216,660	109,196	1,911,566
Write-off (Note 10)	–	(2,440)	(48,882)	–	(51,322)
Disposal	–	(3,181)	(24,777)	(16,856)	(44,814)
At 31 December 2022	2,510,771	214,255	881,581	408,964	4,015,571
Net carrying amount	34,836,928	839,989	219,969	720,536	36,617,422

During the year, the Group sold fully depreciated computers for a cash consideration of MNT 4,094 thousand, resulting in a gain of MNT 4,094 thousand (2022: net loss of MNT 10,871 thousand). The gains on these disposals were recognised as part of other income in the statement of profit or loss (see Note 10).

As at 31 December 2023, premises with carrying amount of MNT 33,045,988 thousand (2022: MNT 34,519,719 thousand) are collateralised for borrowed funds (see Note 24).

22. Intangible assets

	Computer software	
	2023	2022
	MNT'000	MNT'000
Cost		
At 1 January	780,821	649,310
Additions	329,997	232,318
Write-off	(160,785)	(100,807)
At 31 December	950,033	780,821
Accumulated amortisation		
At 1 January	532,825	447,477
Charge for the year (Note 9)	317,045	186,155
Write-off	(160,785)	(100,807)
At 31 December	689,085	532,825
Net carrying amount	260,948	247,996

23. Other liabilities

	2023 MNT'000	2022 MNT'000
Financial liabilities		
Other payables	8,418,363	3,952,485
Interest payable on cross-currency swap (Note 19)	1,135,791	–
	9,554,154	3,952,485
Non-financial liabilities		
Withholding tax payable	2,098,855	1,671,746
VAT payable	52,337	35,047
Other payables	6,536,318	3,674,290
	8,687,510	5,381,083
	18,241,664	9,333,568

Included in other financial payables are loan service fee payables to the banks for the collection of the mortgage pool receivables. Loan service fees are normally settled to the banks with the next quarterly coupon payment of the RMBS (see Note 26). Included in other non-financial payables are income tax to be withheld by others.

24. Borrowed funds

	2023 MNT'000	2022 MNT'000
TDB	9,577,148	10,026,377
Golomt Bank JSC ("Golomt")	–	26,130,137
	9,577,148	36,156,514

TDB:

On 17 May 2018, the Group entered into a loan agreement with TDB of MNT 11.4 billion to finance its purchase of an office space on Peace Avenue which was held for collateral. In 2021, the Group sold the office and swapped it for another office space adjacent to Sukhbaatar Square with TDB, and the loan collateral agreement was amended to register the newly purchased office as collateral on the loan. The loan bears an interest rate of 14.4% per annum and the loan principal is repayable monthly beginning from 17 May 2018 to 17 May 2033 (see Note 30).

Golomt

On 20 December 2023, the Group fully settled its loan of MNT 25.0 billion obtained from Golomt on 11 December 2018 to finance its investing activities (see Note 30).

25. Debt securities

	2023 MNT'000	2022 MNT'000
Debt securities at amortised cost	760,736,859	819,963,304

International capital market

On 8 February 2021, the Group issued senior notes ("2024 Notes") with nominal value of USD 250 million on the international capital market to refinance its senior notes issued on the same market in 2019. The 2024 Notes bear an interest of 8.85% per annum payable semi-annually in arrears starting from 8 August 2021 to 8 February 2024. Qualifying transaction costs are capitalised and amortised over the life of the financial instruments using EIR.

During 2023, the Group repurchased a portion of its "2024 Notes" in a principal amount of USD 16,558,000 (2022: USD 17,191,000) resulting in a gain on repurchase of debt securities amounting to MNT 2,674,622 thousand (2022: MNT 9,128,089 thousand) (see Note 10).

The "2024 Notes" had an outstanding balance of MNT 723,922 million (2022: MNT 788,155 million) or USD 212,251,000 (2022: USD 228,809,000) as at 31 December 2023.

25. Debt securities (cont'd.)

OTC market

On 28 December 2021, the Group issued a USD 12 million bond on the local over-the-counter market. The debt securities bear an interest rate of 6.8% per annum, with interest payable semi-annually and principal payable upon maturity in three years. Qualifying transaction costs are capitalised and amortised over the life of the financial instruments using EIR.

In prior year, the Group repurchased a portion of its issued bond in a principal amount of USD 9,955,000, of which USD 1,168,200 were sold back to third parties. The repurchase resulted in a loss on repurchase of debt securities amounting to MNT 229,990 thousand (see Note 10).

During 2023, the Group issued back portion of its OTC bond, which was previously repurchased in prior year, in a principal amount of USD 312,100 or in MNT 1,091,075 thousand. As of 31 December 2023, the outstanding balance of the OTC bond is MNT 12,024 million (2022: 11,068 million) or USD 3,525,300 (2022: USD 3,213,200).

26. Collateralised bonds

	Interest rate	2023 MNT'000	2022 MNT'000
Senior bonds	4.50%	1,598,774,154	1,890,716,166
Senior bonds I	1.00%	921,549,870	522,538,663
Senior bonds II	4.50%	295,316,563	325,585,305
Senior bonds III	13.00%	65,737,633	71,667,061
Senior bonds II	9.00%	450,690,129	247,157,420
Senior bonds	2.25%	249,375,537	–
Senior bonds	11.00%	31,402,867	–
Junior bonds	11.00%	31,403,775	–
Junior bonds	10.50%	536,545,951	512,333,105
Junior bonds	9.00%	136,774,423	78,485,605
		4,317,570,902	3,648,483,325

The senior and junior bonds as at 31 December 2023 and 31 December 2022 represent bonds issued by the SPCs upon their mortgage pool purchases under the RMBS program of the Government of Mongolia. Starting with the twenty-second issuance of RMBS, senior bonds were offered in three tranches: senior bonds I issued to the MoF, senior bonds II issued to the BoM, and senior bonds III issued to commercial banks, while prior to this change, all senior bonds were issued to the BoM and the MoF. Junior bonds are solely issued to commercial banks.

For the thirty-fourth issuance of RMBS, senior bonds with an interest rate of 2.25% per annum were issued to BoM while senior bonds with an interest rate of 11.0% per annum and junior bonds with an interest rate of 11.0% per annum were issued to commercial banks.

The bonds are collateralised by the purchased mortgage pool receivables (see Note 17).

The principal payments of the senior bonds are payable on a quarterly basis and are equal to the quarterly principal repayment received from the purchased mortgage pool receivables acquired under the RMBS program. The principal of the junior bonds will only be redeemed after the full redemption of the principal of the senior bonds and the payments to junior bond holders are subordinate in right of payment and priority to the senior bonds.

The bonds are not publicly traded on an active market (such as the stock exchange) but are sold directly to commercial banks.

Covid-19 impact

In conjunction with the mortgage principal and interest repayment deferral program as noted in Note 8, MIK Asset Ten SPC LLC to MIK Asset Thirty-One SPC LLC were given the option by the BoM and the MoF to defer the coupon payments due to them on the senior RMBS up to 31 December 2022 if they did not have the ability to pay, given that the entities have been making the coupon payments per schedule since the commencement of the deferral program and have started to exhaust their reserves. All other principal and coupon payments were to be made per schedule.

27. Ordinary shares

The Group is a joint stock company established under the Company Law of Mongolia and listed on the Mongolian Stock Exchange on 24 December 2015. The total authorised share capital of the Group represents 30,000,000 ordinary shares (2022: 30,000,000) with nominal value of MNT 1,000 per share.

The movement in number of shares and amount of share capital during the years ended 31 December 2023 and 31 December 2022 are as follows:

	Number of outstanding shares of MNT 1,000 each	Issued ordinary shares MNT'000	Share premium MNT'000
At 1 January/31 December 2022 and 1 January/31 December 2023	20,709,320	20,709,320	52,225,115

There were 5,462,429 shares held as treasury shares as at 31 December 2023 (2022: 5,462,429 shares). Excluding these shares, the total number of issued shares as at 31 December 2023 was 15,246,891 shares (2022: 15,246,891 shares). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

There were no dividends declared to its shareholders during the years ended 31 December 2023 and 31 December 2022.

Financial and operating policy decisions, including strategic decisions, are made at the meetings of the Board of Directors ("BOD"). The members of the BOD are appointed at the Shareholders' Meeting. As of 31 December 2023 and 2022, each shareholder that has more than 1% of total shares of the Group, has the ability to nominate one member to the BOD, which consists of 9 members, including 3 independent members, one representative of the BoM and representatives of the commercial banks and state-owned banks. In addition, all bank shareholders have material transactions with the Group during 2023 and participated in the policy making procedures.

The shareholders of the Group as of 31 December 2023 and 31 December 2022 and percentages of ownership are as follows:

	2023	2022
CNB Consulting LLC	12.59%	12.59%
Asia Diversified Real Estate Fund One Private Investment Fund	11.16%	11.16%
TDB	10.00%	10.00%
TDB Capital LLC /formerly United Banking Corporation LLC/	5.95%	5.95%
TDB Securities SC /formerly TDB Capital LLC/	5.30%	5.30%
Golomt	4.94%	4.94%
CEC Group	2.36%	2.36%
Khan Bank JSC	1.02%	1.02%
XacBank JSC	1.02%	1.02%
Capitron Bank LLC	1.02%	1.02%
Nexus Finance Investment NBFI LLC	0.57%	0.57%
Chinggis Khaan Bank LLC	0.30%	0.30%
Others	0.16%	0.16%
Total private sector share	56.39%	56.39%
Development Bank of Mongolia	14.88%	14.88%
State Bank JSC	2.35%	2.35%
Total state shares	17.23%	17.23%
Treasury shares	26.38%	26.38%
Total	100.00%	100.00%

28. Contingent liabilities and commitments

Legal claims

Litigation is a common occurrence in the financial services industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages can be reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing. At the year end, the Group had no significant outstanding litigation.

28. Contingent liabilities and commitments (cont'd.)

Assets pledged and restricted

RMBS issued by the Group are fully collateralised by the purchased mortgage pool receivables. See Note 17 for the gross amount of the mortgage pool receivables pledged as collateral for the RMBS and the related liabilities are disclosed in Note 26.

Contingent liabilities arisen from an agreement

In 2023, the Group had engaged with a third party for professional services in relation to a capital raise in the form of debt and equity to diversify its funding sources to continue purchasing loans with recourse from financial institutions. The Group has agreed to pay success fee for any financing that is obtained by the Group during the term of the agreement and its subject to a minimum success fee of USD 1,000,000, which is applicable on the first successful capital raise, regardless of the amount raised.

Management assessed that there is a possible obligation with the probability of an outflow of resources embodying economic benefits, thus, have disclosed contingent liabilities. Accordingly, no provision for any liability has been made in these consolidated financial statements.

29. 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 31.3 'Liquidity risk' for the Group's contractual undiscounted repayment obligations.

	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
At 31 December 2023			
Financial assets			
Cash and bank balances	343,498,698	–	343,498,698
Debt instrument at amortised cost	101,533,131	30,012,734	131,545,865
Mortgage pool receivables with recourse	203,272,920	390,063	203,662,983
Loan receivables with recourse	23,905,581	–	23,905,581
Purchased mortgage pool receivables	287,987,999	3,794,808,162	4,082,796,161
Financial investments at fair value through profit or loss	41,809,396	95,863,786	137,673,182
Derivative financial instruments	152,847,243	–	152,847,243
Other assets	50,720,052	–	50,720,052
	1,205,575,020	3,921,074,745	5,126,649,765
Non-financial assets			
Property and equipment	–	34,800,079	34,800,079
Intangible assets	–	260,948	260,948
Income tax prepayment	190,620	–	190,620
Other assets	8,645,769	–	8,645,769
Deferred tax asset	–	9,619,187	9,619,187
	8,836,389	44,680,214	53,516,603
Total	1,214,411,409	3,965,754,959	5,180,166,368
Financial liabilities			
Borrowed funds	592,171	8,984,977	9,577,148
Debt securities issued	760,736,859	–	760,736,859
Collateralised bonds	449,421,302	3,868,149,600	4,317,570,902
Other liabilities	9,554,154	–	9,554,154
	1,220,304,486	3,877,134,577	5,097,439,063
Non-financial liabilities			
Other liabilities	8,687,510	–	8,687,510
Income tax payable	1,976,169	–	1,976,169
Deferred tax liability	–	33,799,834	33,799,834
	10,663,679	33,799,834	44,463,513
Total	1,230,968,165	3,910,934,411	5,141,902,576
Net	(16,556,756)	54,820,548	38,263,792

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

	Less than 12 months MNT'000	More than 12 months MNT'000	Total MNT'000
At 31 December 2022			
Financial assets			
Cash and bank balances	117,448,513	–	117,448,513
Debt instrument at amortised cost	152,256,901	27,623,403	179,880,304
Mortgage pool receivables with recourse	176,895,785	189,453,000	366,348,785
Loan receivables with recourse	31,948,681	48,958,226	80,906,907
Purchased mortgage pool receivables	161,495,910	3,270,666,319	3,432,162,229
Financial investments at fair value through profit or loss	31,750,982	105,668,595	137,419,577
Derivative financial instruments	–	160,885,601	160,885,601
Other assets	23,496,308	–	23,496,308
	695,293,080	3,803,255,144	4,498,548,224
Non-financial assets			
Property and equipment	–	36,617,422	36,617,422
Intangible assets	–	247,996	247,996
Income tax prepayment	1,318,076	–	1,318,076
Other assets	4,965,401	141,680	5,107,081
Deferred tax asset	–	12,883,280	12,883,280
	6,283,477	49,890,378	56,173,855
Total	701,576,557	3,853,145,522	4,554,722,079
Financial liabilities			
Borrowed funds	1,216,412	34,940,102	36,156,514
Debt securities issued	18,543,686	801,419,618	819,963,304
Collateralised bonds	335,786,225	3,312,697,100	3,648,483,325
Other liabilities	3,952,485	–	3,952,485
	359,498,808	4,149,056,820	4,508,555,628
Non-financial liabilities			
Other liabilities	5,381,083	–	5,381,083
Income tax payable	56,256	–	56,256
Deferred tax liability	–	30,578,976	30,578,976
	5,437,339	30,578,976	36,016,315
Total	364,936,147	4,179,635,796	4,544,571,943
Net	336,640,410	(326,490,274)	10,150,136

30. Related party disclosures

A number of transactions were entered into by the Group with related parties in the course of business. As all shareholders have the right to appoint a director, management considers them to be related parties.

Investment in preference shares from shareholder of related party

On 7 December 2020, the Group purchased 30,000 preference shares of TDBC, a shareholder of TDB, with a par value of MNT 5 million per share for a total consideration of MNT 150 billion. The preference shares have an annual dividend rate of the BoM policy rate plus 1 percent.

On 12 January 2023, TDBC repurchased 250 preference shares for MNT 1.25 billion, ahead of the repayment schedule, resulting in a gain of MNT 59,896 thousand (see Notes 10 and 18).

As at 31 December 2023, the outstanding units of the preference shares are 28,660 (2022: 28,910) (see Note 18).

Accrued interest on preference shares held in TDB Capital LLC amounted to MNT 45,490,879 thousand (2022: MNT 25,650,694 thousand) as at 31 December 2023 (see Note 20).

30. Related party disclosures (cont'd.)

Loans from/to shareholder of related party

On 20 December 2023, the Group fully settled its loan of MNT 25.0 billion, obtained from Golomt, on 11 December 2018 to finance its investing activities (see Note 24).

On 11 December 2018, the Group purchased loan notes from Bodi, a shareholder of Golomt, for MNT 45.0 billion. During 2023, total of MNT 35.0 billion of principal payment has been made in accordance with the agreed repayment schedule. Subsequently, the Group has amended the agreement that the loan notes will bear an interest rate of 19.2% per annum, with interest repayable quarterly, and principal repayable in three instalments beginning from 6 December 2024 to 5 February 2025 (see Notes 14 and 35). The total allowance for expected credit loss recognised for the loan notes is MNT 100,439 thousand (2022: MNT 309,698 thousand) as at 31 December 2023.

Golomt holds 4.94% shares of MIK as of 31 December 2023 (31 December 2022: 4.94%).

Investments in related parties

QSC LLC

On 20 March 2020, the Group invested in MNT 45 billion loan notes bearing 13% interest per annum issued by QSC LLC, related party of a board member of the Group. The loan notes have interest rate of the BoM policy rate plus 2% per annum. On 28 December 2023, the contract was amended and changed the maturity date to 31 January 2024. Per contract, principal and interest payments are to be made on the maturity date (see Note 14).

As of 31 December 2023, the Group has provided an allowance for expected credit losses for the loan notes from QSC LLC of MNT 18,879,012 thousand (2022: MNT 9,149,975 thousand).

Globull Investment and Development PTE Ltd

On 1 July 2022, the Group purchased 2,500 secured callable bonds from Globull Investment and Development PTE Ltd ("Issuer"), a parent company of the shareholder, bearing an interest rate of 12% per annum with a par value of USD 10,000 each for a consideration of USD 25 million. The bonds were due to mature in 12 months, which was extended until March 2024, with interest payable semi-annually and principal payable due on the maturity.

The bonds are secured by any encumbrances or other security created by the obligations of the Issuer, including but not limited to all the shares of the Issuer up to the value of the outstanding bond (see Note 14).

As of 31 December 2023, the total allowance for expected credit loss recognised for the bonds is MNT 902,195 thousand (2022: MNT 1,368,435 thousand) as at 31 December 2023.

TDB Leasing LLC

On 25 March 2021, the Group purchased 1,000 loan notes from TDB Leasing LLC for MNT 1.0 billion. The loan notes had an interest rate of 15% per annum and were matured on 26 March 2023, as scheduled.

On 20 October 2022, the Group purchased additional 4,500 loan notes with a par value of MNT 1.0 million each. The loan notes had an interest rate of 14.4% per annum. The loan notes were matured on 21 June 2023.

Borrowed funds

On 17 May 2018, the Group entered into a loan agreement with TDB of MNT 11.4 billion with an interest rate of 14.4% per annum. The loan principal and interest are repayable monthly beginning from 17 May 2018 to 17 May 2033 (see Note 24).

Swap arrangement with related party

On 14 January 2022, the Group extended its cross-currency swap agreement entered with TDB, which was due to mature in February 2022, to manage the risk of variability of cash flows denominated in USD from its Senior Notes issued on the international market in February 2021 (see Note 25). The agreement has a notional amount of USD 196 million or MNT 515,730 million and has a maturity of two years, with interest payable quarterly beginning 14 April 2022 to 14 January 2024 on a net basis (see Note 19).

30. Related party disclosures (cont'd.)

As at 31 December 2023, the Group has the following balances and transactions with related parties:

	Bank deposits		Collateralised bonds			
	Outstanding balance MNT'000	Interest Income MNT'000	Issued during the year senior bonds MNT'000	Issued during the year junior bonds MNT'000	Outstanding balance MNT'000	Interest expense MNT'000
As at 31 December 2023						
TDB	96,657,998	5,311,058	251,213,800	27,912,800	359,881,450	31,255,721
Khan Bank JSC	6,236,948	48,155	254,638,300	28,293,300	308,389,702	25,793,367
XacBank JSC	8,481,223	106,474	89,499,600	9,944,500	111,620,327	9,055,597
Golomt	58,558,128	2,207,800	182,299,400	20,255,700	237,841,632	19,560,667
Capitron Bank LLC	15,278,577	1,449,268	71,552,100	7,950,500	47,851,602	3,286,853
State Bank JSC	15,474,148	852,973	96,858,600	10,762,300	150,720,213	12,174,167
Chinggis Khaan Bank LLC	440,017	–	–	–	3,858,015	373,291
TDB Securities SC	132,079,595	–	–	–	–	–
	333,206,634	9,975,728	946,061,800	105,119,100	1,220,162,941	101,499,663
BoM	–	–	–	–	3,064,654,228	97,420,116
MoF	–	–	–	–	11,703,554	1,102,835
	–	–	–	–	3,076,357,782	98,522,951
Total	333,206,634	9,975,728	946,061,800	105,119,100	4,296,520,723	200,022,614
As at 31 December 2022						
TDB	67,692,204	3,158,638	172,598,300	19,177,900	260,092,710	19,295,985
Khan Bank JSC	4,313,102	63,736	156,306,800	17,367,800	214,482,126	16,184,484
XacBank JSC	3,172,905	15,294	43,626,900	4,847,600	81,372,355	6,475,477
Golomt	3,178,521	31,333	54,787,200	6,087,700	171,998,755	14,297,936
Capitron Bank LLC	22,400,701	666,141	32,372,000	3,597,100	26,357,971	1,537,103
State Bank JSC	10,095,505	385,473	124,532,400	13,837,100	123,238,327	8,215,230
Chinggis Khaan Bank LLC	654,320	–	–	–	3,693,242	380,911
	111,507,258	4,320,615	584,223,600	64,915,200	881,235,486	66,387,126
BoM	–	–	–	–	2,738,779,660	95,490,185
MoF	–	–	–	–	11,557,220	2,924,411
	–	–	–	–	2,750,336,880	98,414,596
Total	111,507,258	4,320,615	584,223,600	64,915,200	3,631,572,366	164,801,722

	Mortgage pool portfolio						
	Purchase of mortgage pool		Outstanding balance*		Interest income from mortgage pool*		
	with recourse MNT'000	without recourse** MNT'000	with recourse MNT'000	without recourse MNT'000	with recourse MNT'000	without recourse MNT'000	Loan service fee MNT'000
As at 31 December 2023							
TDB	–	279,126,790	–	1,182,128,749	238,694	82,901,504	5,194,335
Khan Bank JSC	–	282,931,729	–	1,001,248,839	–	71,031,795	4,330,261
XacBank JSC	–	99,444,275	–	370,290,619	–	24,372,107	1,507,275
Golomt	–	202,555,244	307,257	832,132,429	69,560	59,143,886	3,969,787
Capitron Bank LLC	–	79,502,654	6,927,072	155,112,529	1,404,955	7,236,052	373,296
State Bank JSC	–	107,620,948	162,383	483,607,487	32,440	31,392,309	1,775,451
TDB Leasing LLC	–	–	197,617,563	–	23,711,537	–	571,427
Total	–	1,051,181,640	205,014,275	4,024,520,652	25,457,186	276,077,653	17,721,832
As at 31 December 2022							
TDB	–	191,776,365	158,847,086	1,024,044,585	23,535,705	70,919,065	1,998,094
Khan Bank JSC	–	173,674,753	–	821,808,882	–	55,884,673	1,556,159
XacBank JSC	–	48,474,749	–	306,745,292	–	21,599,634	570,313
Golomt	–	60,875,148	456,330	729,183,052	94,510	54,158,546	1,614,409
Capitron Bank LLC	11,447,708	35,969,351	9,833,427	83,305,670	1,107,932	4,987,317	118,142
State Bank JSC	–	138,369,709	235,387	415,591,447	42,942	25,803,113	617,000
TDB Leasing LLC	–	–	199,316,536	–	21,453,813	–	522,006
Total	11,447,708	649,140,075	368,688,766	3,380,678,928	46,234,902	233,352,348	6,996,123

30. Related party disclosures (cont'd.)

* Outstanding balance/interest income from mortgage pool with/without recourse represents the principal/interest income from individual borrowers that are passed through to the Group via the commercial banks.

** Difference between issuance of RMBS (senior and junior) and the purchased mortgage pool (without recourse) is the cash payment of the Group to the respective commercial banks amounting to MNT 740 thousand (2022: MNT 1,275 thousand).

Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of the Group's business. The interest charged to and by related parties are at normal commercial rates in relation to bank deposits, borrowings and mortgage pools and at the rates specified in the RMBS.

Other payables

Other payables include loan service fee payable to the banks for the collection of the purchased mortgage pool receivables as follows:

	2023 MNT'000	2022 MNT'000
TDB	2,282,913	882,788
Khan Bank JSC	1,886,044	677,840
Golomt	1,731,788	632,199
State Bank JSC	741,151	266,850
XacBank JSC	674,618	258,470
Capitron Bank LLC	173,591	47,517
Total	7,490,105	2,765,664

Loan service fees are normally settled with the banks with the next quarterly coupon payment of the RMBS.

Compensation to key management personnel

	2023 MNT'000	2022 MNT'000
Short-term employee benefits		
Salaries, incentives and allowances	1,811,282	2,292,292
Contribution to social and health fund	220,907	280,483
	2,032,189	2,572,775

Compensation to key management personnel consists of compensation paid to the board of directors and management of the Group.

31. Risk management

31.1. Introduction

The Group's business activities expose it to the following major categories of financial risk:

- Credit risk. Credit risk is the potential for financial loss resulting from the failure of a borrower or institutional counterparty to honour its financial or contractual obligations, resulting in a potential loss of earnings or cash flows.
- Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its funding obligations in a timely manner.
- Market risk. Market risk is the exposure generated by adverse changes in the value of the Group's financial assets caused by a change in interest rates or foreign exchange rates.
- Operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, corporate governance, or from external events.

The Group seeks to manage those risks by using an established risk management framework that continues to evolve as the Group grows and expands its business. This risk management framework is intended to provide the basis of the principles that govern the Group's risk management activities.

31. Risk management (cont'd.)

31.1. Introduction (cont'd.)

Risk management structure

The Group has its dedicated BOD appointed by its shareholders. The BOD is responsible for the oversight of asset management and execution of responsibility through the board committee system, which includes the following standing committees: the Risk Committee ("RC") and the Finance and Audit Committee ("FAC"). In 2023, the Group established Sustainable Development Committee ("SDC") to develop the Group's sustainable development policies, strategies, and objectives, as well as continuous enhancement of performance, monitoring metrics, targets and reporting.

The RC oversees general risk–related policies, including review of the Group-level risk policies and limits, performance against these policies and limits, and the sufficiency of risk management capabilities. In addition to overseeing liquidity risk and market risk in association with the RC, the FAC reviews the Group's system of internal controls, and approves purchases of pools of mortgage loan receivables.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment.

31.2. Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparties fail to discharge their contractual obligations. Credit risk is monitored by the Risk Management Department of the Group. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties.

The Group has established a credit quality review process, which assigns each counterparty a risk rating to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Risk ratings are subject to regular review. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

The Group has considered the overall economic environment in their ECL model based on the available information. Further, the Group has adjusted their forward-looking factor with the latest available data as of reporting date and has considered several macroeconomic scenarios. With regards to mortgage pool receivables with recourse, loan receivables with recourse, debt instruments and cash and bank balances, management adjusted selection of macro-economic scenarios.

Cash and bank balances

The Group's cash and banak balances consist of current, trust, savings and collection accounts in eleven different commercial banks operating in Mongolia. Credit risk arising from cash and bank balanaces is the risk of the originating bank or financial organisation entering bankruptcy.

Debt instruments at amortised cost

The Group purchased debt instruments of counterparties operating in Mongolia. Credit risk arising from debt instruments lies on the probability of originating counterparties entering bankruptcy.

Mortgage loans without recourse

The Group purchases mortgage loans without recourse from the commercial banks of Mongolia. Credit risk for mortgage loan receivables lies on the probability of not receiving principal or interest on a timely basis due to the borrowers not making payments on time.

The mortgage pool portfolio purchase procedures include thorough due diligence to ensure that the commercial banks comply with the quality standards based on those established by the BoM and the use of an assessment model that utilises both qualitative and quantitative measurements related to the overall quality of mortgage loans to be purchased.

The Group has also developed eligibility criteria for the loan receivables that they can acquire. The criteria are set for the borrower, loan, collateral asset and loan documents based on Mongolian Law and the requirements set by the BoM. The loan files for every loan receivable to be purchased are checked for completeness for each borrower, and management has procedures and policy in place to ensure that the eligibility criteria are met.

After the pool of loan receivables are purchased, the Group receives daily settlement reports and reconciles the information, on a monthly basis. A consolidated quality report is obtained from the loan origination banks. These reports are used to closely monitor the performance of the loan origination banks in collecting loan payments on behalf of the Group. In addition, follow ups are made with the loan origination banks on any loans with slow repayment history. The policies and procedures for selecting loan receivables for purchase have been approved and are monitored by the Chief Executive Officer ("CEO").

31. Risk management (cont'd.)

31.2. Credit risk (cont'd.)

Mortgage loans with recourse

In addition to mortgage loans without recourse, the Group also purchases mortgage loans with recourse from commercial banks of Mongolia. The Group has the right to request from the respective commercial bank, when any individual mortgage loan is overdue more than 90 days, either to replace the defaulted loan with another performing mortgage loan with similar terms or to pay immediately in cash an amount equal to the carrying amount of the defaulted loan plus accumulated interest. Therefore, the credit risk for mortgage loan receivables with recourse lies on the probability of the originating bank or financial organisation entering bankruptcy.

The mortgage loan purchase procedures are similar to those of mortgage pools without recourse for mortgage loans sourced by the Group's own funds. For outstanding mortgage pool receivables with recourse balances based on their source of funding, please see Note 15.

For mortgage loans purchased with the Senior Note proceeds, the Group has developed eligibility criteria and loan purchase procedures that are different than those set for mortgage loans without recourse. Due diligence review procedures include obtaining loan details from the banks and checking them against the eligibility criteria, but do not include review of borrower loan files. The final composition and size of the portfolio to be purchased is approved by the Asset and Liability Committee ("ALCO") of the Group.

After the pool of loan receivables are purchased, the Group receives the settlement reports and reconciles the information on a monthly basis. The policies and procedures for selecting loan receivables for purchase have been approved and are monitored by the CEO.

Loan receivables with recourse

The consumer loan purchase procedures are similar to those of mortgage pools with recourse. The Group has the right to request from the respective financial institution, when any individual consumer loan is overdue more than 90 days, either to replace the defaulted loan with another performing loan with similar terms or to pay immediately in cash an amount equal to the carrying amount of the defaulted loan plus accumulated interest. Therefore, the credit risk for mortgage loan receivables with recourse lies on the probability of the originating financial organisation entering bankruptcy.

Same with mortgage pools with recourse, the Group has set eligibility criteria for loan receivables with recourse. Due diligence review procedures include obtaining loan details from the financial institutions and checking them against the eligibility criteria, but do not include review of borrower loan files. The final composition and size of the portfolio to be purchased is approved by ALCO of the Group.

After the pool of loan receivables are purchased, the Group receives the settlement reports and reconciles the information on a monthly basis. The policies and procedures for selecting loan receivables for purchase have been approved and are monitored by the CEO.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers cash and bank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay.

When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- significant financial difficulty of the counterparty or the borrower
- a breach of contract, such as a default or past due event
- it is becoming probable that the counterparty or the borrower will enter bankruptcy or other financial reorganisation

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

31. Risk management (cont'd.)

31.2. Credit risk (cont'd.)

The Group's internal rating and PD estimation process

The Group's Risk Management Department operates its internal rating models. For cash and bank balances, debt instruments at amortised cost, mortgage loan receivables with recourse and loan receivables with recourse, Risk Management Department analyses publicly available information such as financial information and other external data, e.g., the Moody's Rating Agency ratings.

For the mortgage loan receivables without recourse, the Risk Management Department first runs an A-score model for its key portfolios in which its customers are rated from 1 to 5 based on the borrower's application information. The Group then runs a B-score model which assigns a rating from 1 to 6 based on the borrower's payment behaviour. The models incorporate both qualitative and quantitative. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure.

Internal credit rating system

The Group classifies cash and bank balances, debt instruments at amortised cost, mortgage loans with recourse and loan receivables with recourse into internal rating grades based on the credit ratings of the counterparties. To determine the credit ratings of the counterparties, the Group analyses publicly available external information such as the ratings of international rating agencies or uses benchmarking approach and assigns the internal rating. The internal credit rating grades are as follows:

Internal rating	**Internal rating description**
A- to AAA rated	High credit quality
BB- to BBB+ rated	Good credit quality, upper medium grade
B- to B+ rated	Adequate credit quality, lower medium grade
C to CCC+ rated	Below average credit quality
D rated	Low credit quality

The Group's classifications of mortgage loans without recourse are generally determined based on the number of days that the relevant mortgage is overdue with qualitative factors (including general financial condition and solvency of the borrower, and risks associated with the collateral) also taken into account.

The classifications are as follows:

- Performing mortgages are mortgages under which sums are under or up to 30 days in arrears;
- Mortgages in arrears are mortgages under which sums are over 30 days but equal to or less than 90 days in arrears;
- Non-performing mortgages include:
  - *substandard mortgages:* mortgages under which sums are over 90 days but equal to or less than 180 days in arrears and the borrower's financial debt condition is in distress or the borrower is going to sell the collateral through non-court procedures;
  - *doubtful mortgages:* mortgages under which sums are over 180 days but equal to or less than 360 days in arrears and the originating commercial bank has transferred the mortgage to their Special Assets Unit or commenced enforcement action; and
  - *bad loans:* loans under which sums are equal over 360 days in arrears and a court decision has been made or the mortgage has been transferred for enforcement action.

The credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system are disclosed in Notes 13.1, 14.1, 15.1, 16.1 and 17.1.

Exposure at default

The exposure at default ("EAD") represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments. The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The PDs are then assigned to each economic scenario based on the outcome of Group's models.

31. Risk management (cont'd.)

31.2. Credit risk (cont'd.)

Loss given default

In order to calculate the LGD ratio for cash and bank balances, loan receivables with recourse, commercial mortgage pool receivables and debt instruments at amortised cost, the Group uses Thomson Reuters study where they determined the average LGD rate for global corporates based on their credit rating.

The Group uses the same LGD for both residential mortgage loan receivables with recourse and without recourse since both portfolios consist of identical loans. The Group considered the recoverability rate of defaulted loans from foreclosed collateral property and eventual sale of the property. The Group initially calculated the present value of future cash inflows for each category of loans – to be settled in court, to be settled outside court, closed in court, closed outside court – and calculated the LGD rate for each category and the weighted-average LGD ratio for all historically defaulted loans. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

Credit conversion factor

The Group only purchases mortgage pools from the commercial banks, hence there is no consideration of the credit conversion factor.

Significant increase in credit risk ("SICR")

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

The Group considers there is a SICR for the cash and bank balances and debt instruments when the PD rate of the asset as of the reporting date increased more than 15% compared to the PD rate when the asset was initially recognised or there is clear indication that the counterparty is facing financial difficulties. For loan receivables with recourse and mortgage pool receivables with recourse, the Group considers there is a SICR when the PD rate of the assets as of the reporting date increased more than 15% compared to the PD rate when the asset was initially recognised or over 30 days past due.

The Group makes an assessment if there is a SICR for the purchased mortgage pool receivables without recourse by comparing the application rating (A-score model) that was calculated for borrowers at their recognition date with the behavioural rating (B-score model) calculated at the reporting date. The Group considers a purchased mortgage pool receivable without recourse to have experienced a SICR when a borrower with an application rating of 1, 2 or 3 has moved to the behavioural rating of 5 on the reporting date. Borrowers with application ratings of 4 and 5, are considered high credit risk borrowers when the Group initially purchased these loans from the banks. For these assets, the Group uses the 30-day backstop in assessing that there is a significant increase in credit risk since initial recognition.

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

Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Note 2.4 Summary of material accounting policies and in Note 2.5 Significant accounting judgments, estimates and assumptions.

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

- Percent change of G7 GDP rate
- Percent change of US Federal Funds rate
- Percent change of Housing Price Index
- Percent change of Unemployment rate

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Management has assessed the economic outlook of the country and the Group estimated the ECLs based on two multiple scenarios, (2022: two multiple scenarios) with probability weights of 70:30 for LGD for base case and downside case (2022: 70:30).

Analysis of risk concentration

The Group's largest external customer has contributed MNT 44,003,147 thousand interest income (2022: MNT 37,641,990 thousand), representing 11.8% (2022: 11.2%), of the Group's total interest income for the year ended 31 December 2023.

31. Risk management (cont'd.)

31.2. Credit risk (cont'd.)

Collateral and other credit enhancements

Purchased mortgage pool receivables are collateralised by residential properties pledged under the mortgage loan agreements between the originating financial institutions and the individual mortgage loan borrowers.

The fair value of the properties held as collateral by the Group as at 31 December 2023 was MNT 8,010,932,042 thousand (31 December 2022: MNT 6,972,647,111 thousand).

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings.

It is the Group's policy to maintain accurate and consistent risk grades across the credit portfolio. This facilitates the management of the applicable risks and the comparison of credit exposures across all financial assets. The grading system is supported by a variety of financial and statistical analytics, combined with processed portfolio and market information to provide the main inputs for the measurement of counterparty risk.

The credit quality of bank balances, mortgage pool receivables with recourse, loan receivables with recourse and purchased mortgage pool receivables is summarised based on S&P, Moody's or Fitch ratings or ratings benchmarked based on Moody's official bank rating methodology.

The credit quality of debt instruments at amortised cost was determined using Moody's methodology for rating financing and investment holding companies.

Disclosure of credit quality and the maximum exposure for credit risk as at 31 December 2023 and 2022 under IFRS 9 per categories based on the Group's internal credit rating system and year-end stage classification are further disclosed in Notes 13.1,14.1, 15.1, 16.1 and 17.1.

The credit quality of the portfolio is primarily monitored based on ageing reports and is analysed through monitoring delays in payment (particularly over 90 days) in subsequent periods.

In accordance with the Group's credit risk procedures, the ratio between the carrying amount of purchased loans and the fair value of collateral at the time of purchase of the loan pools with and without recourse should not be greater than 100% and 70%, respectively, and the Group has the first claim over all assets used as collateral.

31.3. Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. For managing the Group's liquidity risk, certain methods outlined below have been implemented.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to current liabilities. However, the Group's repayment schedule of RMBS is directly related to the collection of the repayments from the purchased mortgage pools; the Group has assessed that its exposure to liquidity risk is insignificant because the Group has the right to request from the respective commercial banks to replace or return any mortgage loans included in the mortgage pools purchased with recourse that are overdue more than 90 days (see Notes 15 and 16).

Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and financial liabilities at 31 December 2023 based on contractual undiscounted repayment obligations.

Financial assets and financial liabilities at 31 December 2023 are presented based on undiscounted contractual cash flows, which include any interest to be accrued over the life of the financial instrument. Statutory income tax balances are excluded from the analysis below.

31. Risk management (cont'd.)

31.3. Liquidity risk (cont'd.)

Analysis of financial liabilities by remaining contractual maturities (cont'd.)

At 31 December 2023	On demand MNT'000	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
Cash and bank balances	191,900,242	153,149,089	–	–	–	–	345,049,331
Debt instruments at amortised cost	32,511,653	121,557,643	96,000	2,027,353	–	–	156,192,649
Mortgage pool receivables with recourse	17,103,920	187,713,985	53,478	100,253	403,165	4,629	205,379,430
Loan receivables with recourse	376,325	23,966,981	–	–	–	–	24,343,306
Purchased mortgage pool receivables	63,443,307	92,657,888	138,986,832	277,973,662	1,963,641,988	4,182,108,242	6,718,811,919
Financial assets at FVPL	33,682,314	–	–	58,397,946	76,817,975	–	168,898,235
Derivative financial instruments	–	152,847,243	–	–	–	–	152,847,243
Other assets	57,102,586	–	–	–	–	–	57,102,586
Total financial assets	396,120,347	731,892,829	139,136,310	338,499,214	2,040,863,128	4,182,112,871	7,828,624,699
Other liabilities	9,554,154	–	–	–	–	–	9,554,154
Borrowed funds	82,409	461,986	461,986	923,973	9,239,728	6,313,814	17,483,896
Debt securities issued	25,457,848	727,157,026	403,988	12,672,935	–	–	765,691,797
Collateralised bonds	179,059,259	224,869,052	138,528,018	292,015,468	1,843,210,775	3,994,132,543	6,671,815,115
Total financial liabilities	214,153,670	952,488,064	139,393,992	305,612,376	1,852,450,503	4,000,446,357	7,464,544,962
Net liquidity gap	181,966,677	(220,595,235)	(257,682)	32,886,838	188,412,625	181,666,514	364,079,737
Cumulative liquidity gap	–	(38,628,558)	(38,886,240)	(5,999,402)	182,413,223	364,079,737	–
At 31 December 2022							
Cash and bank balances	49,788,372	68,603,901	–	–	–	–	118,392,273
Debt instruments at amortised cost	11,595,803	19,193,392	5,274,061	136,312,198	38,164,690	–	210,540,144
Mortgage pool receivables with recourse	7,084,686	12,325,286	17,935,824	176,723,428	210,479,727	154,381	424,703,332
Loan receivables with recourse	5,739,561	12,794,136	10,519,024	40,080,947	33,916,255	–	103,049,923
Purchased mortgage pool receivables	42,118,472	71,357,110	109,528,882	219,475,543	1,722,910,128	4,441,349,226	6,606,739,361
Financial assets at FVPL	–	–	–	53,862,000	135,936,000	5,000,000	194,798,000
Derivative financial instruments	–	–	–	–	160,885,601	–	160,885,601
Other assets	8,144,024	–	–	25,651,334	–	–	33,795,358
Total financial assets	124,470,918	184,273,825	143,257,791	652,105,450	2,302,292,401	4,446,503,607	7,852,903,992
Other liabilities	9,333,569	–	–	–	–	–	9,333,569
Borrowed funds	1,216,412	461,986	1,708,562	27,177,397	7,391,782	10,009,705	47,965,844
Debt securities issued	27,737,752	11,625,293	371,163	35,247,043	834,841,877	–	909,823,128
Collateralised bonds	52,482,203	103,041,004	105,374,203	218,164,760	1,383,887,597	4,019,859,213	5,882,808,980
Total financial liabilities	90,769,936	115,128,283	107,453,928	280,589,200	2,226,121,256	4,029,868,918	6,849,931,521
Net liquidity gap	33,700,982	69,145,542	35,803,863	371,516,250	76,171,145	416,634,689	1,002,972,471
Cumulative liquidity gap	–	102,846,524	138,650,387	510,166,637	586,337,782	1,002,972,471	–

The above tables show the Group's exposure to liquidity risk based on the contractual maturities of financial liabilities; however, for collateralised bonds, if prepayments are made by the individual borrowers, it shortens the contractual maturity. In this case, the contractual maturity of the RMBS is proportionally affected as the contractual principal repayment of the bond is equal to the principal repayment of mortgage pools and ultimately will not have a significant impact on the overall liquidity of the Group.

31. Risk management (cont'd.)

31.4. Market risk

As noted previously, market risk is the risk that changes in market conditions, such as changes in interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Currency risk

Currency risk is the possibility of financial loss to the Group arising from adverse movements in foreign exchange rates. The Group's management sets limits on the level of exposure by currencies, which are monitored on a frequent basis. The Group entered into a cross-currency swap contract for the Senior Notes issued to eliminate the currency risk (see Note 19).

The table below summarizes the Group's exposure to foreign exchange risk as at 31 December 2023. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorised by currencies. Debt securities are presented gross of transaction costs which were already paid for and are not subject to any currency risk.

	2023 USD MNT'000	2022 USD MNT'000
Assets		
Cash and balances	133,212,564	18,120,157
Debt instruments at amortised cost	90,425,335	91,324,368
Mortgage pool receivables with recourse	197,639,067	199,604,048
	421,276,966	309,048,573
Liabilities		
Debt securities	761,403,916	826,938,867
Other liabilities	245,149	485,929
	761,649,065	827,424,796
Derivatives (notional amount)	515,730,880	515,730,880

The table below indicates the currencies to which the Group had significant exposure at the end of the reported periods on its non–trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the MNT (all other variables being constant) on the income statement and equity. A negative amount in the table reflects a potential net reduction in the income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the currencies below against the MNT would have resulted in an equivalent but opposite impact.

	2023		2022	
	Change in currency rate %	Effect on profit before tax MNT'000	Change in currency rate %	Effect on loss before tax MNT'000
Currency				
USD	+10	17,532,330	+10	(7,302,970)

Interest rate risk

Given that interest rates of the financial assets and liabilities are fixed due to the nature of the Group's operations, the Group's exposure to interest rate risk is limited.

As at 31 December 2023, the Group's interest-bearing assets (bank balances, debt instruments at amortised cost, mortgage pool receivables with recourse, loan receivables with recourse and purchased mortgage pool receivables without recourse) and interest-bearing liabilities (borrowed funds, collateralised bonds and debt securities issued) have fixed interest rates and are not subject to repricing until they mature.

31. Risk management (cont'd.)

31.4. Market risk

Interest rate risk (cont'd.)

The table presents the aggregated amounts of the Group's interest-bearing financial assets and liabilities at gross carrying amounts, which exclude any interest to be accrued over the life of the instrument and allowance of impairment recognised as at the year-end.

	Less than 3 months MNT'000	3 to 6 months MNT'000	6 months to 1 year MNT'000	1 to 5 years MNT'000	Over 5 years MNT'000	Total MNT'000
At 31 December 2023						
Interest-bearing financial assets	960,506,693	67,785,027	184,383,699	1,093,946,692	2,773,461,926	5,080,084,037
Interest-bearing financial liabilities	791,035,185	67,554,891	150,967,729	1,026,593,119	2,850,541,458	4,886,692,382
Net interest sensitivity gap	169,471,508	230,136	33,415,970	67,353,573	(77,079,532)	193,391,655
At 31 December 2022						
Interest-bearing financial assets	171,105,230	49,131,828	446,176,097	1,214,830,187	2,602,485,289	4,483,728,631
Interest-bearing financial liabilities	36,933,962	38,334,078	103,904,522	1,496,065,227	2,618,374,720	4,293,612,509
Net interest sensitivity gap	134,171,268	10,797,750	342,271,575	(281,235,040)	(15,889,431)	190,116,122

31.5. Operational risk

Operational risk is the risk of loss arising from systems failure, human errors, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, and lead to financial loss. The Group cannot expect to eliminate all operational risk, but through a dual control framework, segregation of duties between front-office and back-office functions, controlled access to systems, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit, the Group seeks to manage operational risk.

32. Segment reporting

During the years ended 31 December 2023 and 2022, the Group was engaged into two operating segments based on the Group's principal activities, as follows:

Purchases without recourse ("PWOR")

The Group's PWOR operating segment entails the purchase of subsidised interest rate residential mortgages issued without recourse from commercial banks and issue of RMBS securitised by the purchased mortgages back to the originating banks. RMBS principal payments are made on a pass-through basis, in line with actual principal payments received on mortgage loans.

Purchases with recourse ("PWR")

The Group's PWR operating segment involves the purchase of mortgages and other loans with recourse issued at market interest rate from originators, namely commercial banks and non-banking financial institutions. Mortgage loan portfolios with recourse have defined maturity terms and are sold back to the originators at an amount equal to the carrying amount of the loans plus accumulated interest at the maturity date.

Others

Included within others are management operations and investing in assets such as corporate debt securities and short-term placement of term deposits in commercial banks.

As the Group's operations are located in Mongolia, no further geographical segment information is provided..

The Group's largest external customer has contributed MNT 44,003,147 thousand interest income (2022: MNT 37,641,990 thousand), representing 11.8% (2022: 11.2%), of the Group's total interest income for the year ended 31 December 2023.

All operating segments' operating results are regularly reviewed by the Group's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

32. Segment reporting (cont'd.)

At 31 December 2023

	PWOR MNT'000	PWR MNT'000	Others MNT'000	Eliminations MNT'000	Total MNT'000
Interest income	312,762,059	58,909,981	6,350,307	(5,330,400)	372,691,947
Interest expense	(201,701,721)	(89,984,690)	(5,330,400)	7,549,570	(289,467,241)
Net fees income/(expense)	(36,744,492)	17,994,117	3,019,812	(2,219,170)	(17,949,733)
Net other income/(expense)	(1,113,444)	3,875,848	2,408	–	2,764,812
Credit loss reversal/(expense)	84,910	539,194	(10,303,590)	10,304,478	624,992
Net gain/(loss) on financial assets at fair value through profit or loss	3,518,007	7,231,719	–	(9,504,627)	1,245,099
Net loss on change in fair value of derivative financial instruments	–	(8,038,358)	–	–	(8,038,358)
Operating expenses	(1,700,870)	(14,192,240)	(1,295,179)	–	(17,188,289)
Profit/(loss) before tax	75,104,449	(23,664,429)	(7,556,642)	799,851	44,683,229
Income tax expense	(10,182,393)	(2,255,167)	(830,491)	(3,301,522)	(16,569,573)
Profit/(loss) for the year	64,922,056	(25,919,596)	(8,387,133)	(2,501,671)	28,113,656
Segment assets	**4,468,597,798**	**834,182,227**	**100,614,629**	**(223,228,286)**	**5,180,166,368**
Segment liabilities	**4,335,280,674**	**795,853,776**	**46,052,009**	**(35,283,883)**	**5,141,902,576**
Depreciation and amortisation	–	2,170,186	44,679	–	2,214,865
Capital expenditure*	–	66,877	13,883	–	80,760

At 31 December 2022

	PWOR MNT'000	PWR MNT'000	Others MNT'000	Eliminations MNT'000	Total MNT'000
Interest income	261,474,035	74,043,228	4,571,908	(4,098,810)	335,990,361
Interest expense	(166,055,406)	(91,733,223)	(4,098,810)	6,757,901	(255,129,538)
Net fees income/(expense)	(22,178,180)	14,673,818	3,055,191	(2,659,091)	(7,108,262)
Net other income/(expense)	(3,656,191)	(87,135,375)	24,647	–	(90,766,919)
Credit loss reversal/(expense)	12,384,823	(24,283,383)	(1,072,522)	1,184,117	(11,786,965)
Net gain/(loss) on financial assets at fair value through profit or loss	4,356,509	21,800,883	–	(28,787,002)	(2,629,610)
Net gain on change in fair value of derivative financial instruments	–	115,877,409	–	–	115,877,409
Modification loss on purchased mortgage pool receivables	(110,852,344)	–	–	–	(110,852,344)
Modification gain on collateralized bonds	53,597,740	–	–	–	53,597,740
Operating expenses	(1,617,759)	(12,963,955)	(2,173,719)	–	(16,755,433)
Profit/(loss) before tax	27,453,227	10,279,402	306,695	(27,602,885)	10,436,439
Income tax expense	(2,279,067)	(3,191,598)	(592,040)	1,629,874	(4,432,831)
Profit/(loss) for the year	25,174,160	7,087,804	(285,345)	(25,973,011)	6,003,608
Segment assets	**3,731,760,197**	**935,603,348**	**105,292,660**	**(217,934,126)**	**4,554,722,079**
Segment liabilities	**3,657,859,504**	**876,862,926**	**42,342,907**	**(32,493,394)**	**4,544,571,943**
Depreciation and amortisation	–	2,046,086	51,635	–	2,097,721
Capital expenditure*	–	843,764	36,706	–	880,470

*Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets

33. Fair value of financial instruments

Fair value hierarchy

	Level 1 MNT'000	Level 2 MNT'000	Level 3 MNT'000	Total MNT'000
At 31 December 2023				
Financial assets measured at FVPL	232,314	–	137,440,868	137,673,182
Derivative financial instruments	–	152,847,243	–	152,847,243
	232,314	152,847,243	137,440,868	290,520,425
At 31 December 2022				
Financial assets measured at FVPL	–	–	137,419,577	137,419,577
Derivative financial instruments	–	160,885,601	–	160,885,601
	–	160,885,601	137,419,577	298,305,178

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

	Fair value (MNT'000)			
	31 December 2023	31 December 2022	Valuation technique	Inputs
Financial assets				
Derivative financial instruments	152,847,243	160,885,601	Discounted Cash Flow model	USD – MNT foreign exchange rate, Central Bank policy rate, USD SOFR rate, adjusted forward rate

Because active market prices are not available, the Group used the discounted cash flow model with unobservable inputs. Therefore, the fair value of unquoted investment in TDBC is categorised under level 3. The fair value assessments as of 31 December 2023 were performed by management's specialist and prior year's assessments were performed by an external valuer and the valuation methodology and inputs are consistent with valuation practice. A net gain of MNT 1,211,395 thousand (31 December 2022: net loss of MNT 2,629,610 thousand) was recognised in the statement of profit or loss for the period ended 31 December 2023 (see Notes 10 and 18).

The following table demonstrates the sensitivity of the unquoted investment in TDBC to a reasonably possible change in the unobservable input, with all other variables held constant.

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value	
				31 December 2023 MNT'000	31 December 2022 MNT'000
Unquoted investment in TDBC	Discounted cash flow model	Discount rate	+/-10%	(3,614,019)/ 3,614,019	(4,110,441)/ 4,110,441

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value.

	2023 MNT'000	2022 MNT'000
Unquoted investments		
Fair value as at 1 January	137,419,577	145,499,187
Redeemed	(1,250,000)	(5,450,000)
Gain on redemption of preference shares	59,896	–
Net gain/(loss) from change in fair value through profit or loss	1,211,395	(2,629,610)
Fair value as at 31 December	137,440,868	137,419,577

Transfers between level 1, 2 and 3

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

33. Fair value of financial instruments (cont'd.)

Financial instruments for which fair value approximates carrying value

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

Fixed rate financial instruments

The carrying value of the Group's fixed rate financial assets and liabilities approximates the fair value by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments available in Mongolia.

34. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and fulfil its obligations to the investors of the RMBS and the Senior Note holders by effectively managing the subsidiaries. In order to maintain or adjust the capital structure, the Group may issue new shares, obtain borrowings, invest in permitted investments or issue bonds.

Included in retained earnings/(accumulated losses) as at 31 December 2023 are restricted retained earnings of MNT 185,117,400 thousand (31 December 2022: MNT 144,904,152 thousand) that are attributable to the Group's SPCs and are restricted from distribution until the liquidation of the respective SPCs in accordance with the Articles of Charter of each SPC and FRC regulation. MIK HFC is also restricted from distribution of dividends in accordance with covenants related to debt securities issued in 2021.

The Group was not subject to any other externally imposed capital requirements throughout 2023 and 2022.

35. Subsequent events

On 18 January 2024, the Group exchanged USD 170,431,000 of its 2024 Notes by issuing USD 172,485,000 of new senior notes. On the same day, the Group issued new senior notes ("2027 Notes") with principal amount of USD 52,515,000 on the international capital market to refinance its 2024 Notes. The 2027 Notes have an annual coupon rate of 11.5% and are due to mature in 3 years. The total principal amount of the 2027 Notes issued by exchange offer and new issuance is USD 225,000,000.

On 2 February 2024, the Group established subsidiary MIK Asset Thirty-Five LLC as a legal entity. As of the auditor's report date, the subsidiary has not yet received the special license from the FRC to purchase mortgage pools and issue RMBS.

On 8 February 2024, the Group fully repurchased the 2024 Notes in a principal amount of USD 41,820,000, fully settling the debt securities as scheduled.

On 15 February 2024, the Group issued second tranche of its OTC bond with principal amount of MNT 8.5 billion ("OTC Tranche-2 bond"). OTC Tranche-2 bond bears an interest rate of 18.0% per annum, with interest payable semi-annually and principal payable upon maturity in 12 months.

On 6 February 2024, the Group has obtained approval for a credit line from TDB to finance its working-capital. The credit line has a total borrowing limit of MNT 10.0 billion with an interest rate of 18.0% per annum and due to mature in 24 months following the Group's withdrawal of the funds.

On 6 February 2024 and on 26 February 2024, the Group obtained total of MNT 20.0 billion loan from Golomt to finance its investing activities. The loans have an interest rate of 16.2% per annum with a maturity of 12 months.

On 6 February 2024 and on 26 February 2024, the Group purchased 20,000 loan notes from Bodi with par value of MNT 1,000,000 each for a consideration of MNT 20.0 billion. The loan notes bear an interest rate of 19.2% per annum and are due to mature in 12 months.

On 23 February 2024, and amendment to the original cross-currency swap agreement with TDB extended the term of the arrangement until 4 January 2027. With the amendment, the nominal amount was reduced from USD 196 million to USD 131 million.

On 28 February 2024, the Group extended the maturity of loan notes of Globull until December 2026 and amended the interest rate per annum to 14.8%.

36. Mongolian translation

These financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the English version and the Mongolian version, the English version will prevail.